Sustainability of Low-Cost Airlines within South Africa

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MASTER OF COMMERCE DEGREE (MCom)
by

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DECLARATION

I, the undersigned, ____________________________________ (*full names, please print*), hereby declare that this research is my own, unaided work. It is being submitted in partial fulfilment of the requirements for the degree of Masters in Business Science at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

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_______________________________________ Signature

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ABSTRACT

Based on the significant amount of entries and exits of low-cost airlines in the commercial airline industry within South Africa, this brought on the question of whether such business models are sustainable in an emerging market. Incidents such as the exits of 1time and Velvet Sky brought about a high degree of concern. Analysts have suggested that the main reasons for airlines departing are the global financial crisis in 2009 which led to a decrease in passenger numbers, decreasing market size, the volatility of the fuel price, route density on major routes, market size and currency risk. (1time Holdings, 2010; South African Airways, 2014; Comair Limited, 2014; Hedley, 2012). These factors are all external and indicate possible reasons for low-cost airline market exit. However, the business model of the airline is not considered as a possible reason for a low-cost airline's exit from a market. Johnson, Christensen and Kagermann (2008) stated that the business model has four key components and, when these components are combined, they deliver value. These components are customer value proposition, profit formula, key resources, and key processes. Using the components provided by Johnson et al (2008) as a basis for the theoretical model, the study aimed to investigate key factors that enable or inhibit a disruptive innovation, such as a low-cost airline, in an emerging market like South Africa, and propose a conceptual model (that will be empirically tested in a subsequent study) for sustainability within the context of disruptive innovations, such as a low-cost airline, in a developing country setting. Five managers of leading low-cost airlines and airline consulting firms in South Africa were selected using judgmental sampling method and were requested to participate in separate individual in-depth interviews. The data from the interviews was analysed using the Glaserian coding method. Based on the data analysis, three themes were developed. These themes were: the business model, business model evaluation and external factors. From the themes, a conceptual model was developed. The model alleged that specific elements of the airline business model (the organisation, the product, costs and cash sources) have a possible influence on the competitive advantage of an airline while the competitive advantage of an airline has a possible contribution to its sustainability.

Keywords: *Business models, low-cost airlines, sustainability, innovation, disruptive innovation, services, emerging economy*

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CHAPTER 1: INTRODUCTION AND BACKGROUND TO THE STUDY

1.1 Background

The commercial airline industry has primarily provided air travel as another means of transport for travellers. The evolution of the airline industry has brought about a typology of innovative airline business models such as full-service airlines, low-cost airlines, cargo freighters, air shuttle services, aircraft leasing, aircraft maintenance and charter services (Boeing, 2015). The business model is defined as the firm's overall philosophy on how it intends to capture, deliver and create value. The value mentioned in the definition is not only limited to economic value but could also be social or anything that the firm defines as value (Magretta, 2002; Amit & Zott, 2001). In South Africa, since 1990, a significant number of airlines have entered an exited the market such as Nationwide, 1time, Velvet Sky and African International Airways. This study will focus on the low-cost airline business model. Low-cost airlines (no frills airlines) are defined as airlines that offer significantly lower fares and fewer features than full-service airlines (Boeing, 2015). A low-cost airline is also considered as a disruptive innovation because this type of innovation enabled the creation of a new market, and offered convenience and lower prices to customers in an established market (Christensen, et al., 2004).

1.2 Problem Statement

In the South African commercial airlines industry, there are four low-cost airlines (FlySafair, Mango, Kulula, and Skywise) servicing all three of South Africa's major destinations (Cape Town, Johannesburg and Durban) among others. In 2012, 1time ceased operations due to its insolvency. Prior to its demise, 1time was competing with Mango and Kulula. Analysts have suggested that the main contributors to its demise were the global financial crisis in 2009 which led to decrease in passenger numbers, the volatility of the fuel price, route density on major routes, market size, and currency risk. These factors ultimately led to the airline being depleted of cash, thus being unable to operate (1time Holdings, 2010; South African Airways, 2014; Comair Limited, 2014; Hedley, 2012). When viewing the contributing factors responsible for 1time's failure, what is common is that they are all external. It seems that internal factors, such as the business model, were overlooked. Furthermore, Mango and Kulula also experienced the same external challenges faced by 1time but they managed to endure those challenges. It could be the case that both Mango and Kulula innovated their respective business models in such way that they could deal with the external challenges which ultimately led to the demise of

1time. Furthermore, it could be the case that 1time's business model was not appropriate for the challenges faced by airlines operating in South Africa. These possibilities make investigating an internal factor - the business model's effect on airlines sustainability - relevant.

When viewing the business model and its justification on why it should be studied, the reasons are twofold. Firstly, Johnson et al (2008) stated that there are four main components of the business model and when these components are combined, value is delivered. When considering the statement by Johnson et al (2008), the implication is that if no value is delivered, it could potentially link to the business model being unsustainable. Secondly, Amit and Zott (2001) state that the objective of a business model is to exploit opportunities by creating value for all the parties involved and creating customer surplus while generating profit for the local firm and its partners. When using this definition to diagnose a situation where customer surplus is not being created and no profits being created for the local firm and its partners, this could potentially due to the business model not being adequate to achieve the purposes mentioned by Amit and Zott (2001). The two reasons mentioned indicate that the business model needs to be investigated as an internal factor affecting the sustainability of a business.

1.3 Research Gaps

The study aims to address two research gaps. The first gap is from the perspective of disruptive innovation. Studies focus on the technological advances in physical products but there is inadequate research on service products (Tiwari & Herstatt, 2012; Hart & London, 2005; Karnani, 2007; Adner, 2002). The first gap is relevant because disruptive innovations in service industries may have different business model implications, processes, and challenges as compared to disruptive innovations in physical products. When considering Habtay's study (2012), it can be seen that technology-driven disruptive entrant firms have more disruptiveness potential compared to market-driven disruptive entrant firms. Using Habtay's (2012) study as a foundation, the most plausible implication could be that innovation in different contexts may produce varying outcomes. The second gap takes the emerging economy exclusively into account. As mentioned earlier, studies did focus on technological disruptions in developed settings but when taking into account the specific context of the services industry in emerging economies, more research is required. Furthermore, the context of services businesses, such as airlines, in a developing country requires more research because of previous studies that focused mainly on airlines in developed countries (O'Connell & Williams, 2005; Barrett, 2004; Fu, et al., 2011; Bamber, 2015). Hart and Christensen (2002) stated that disruptive innovations are ideal for emerging economies because of the massive low-income markets. The context described by Hart and Christensen (2002) implies that the services industry in the emerging economy could be an ideal setting for the experimentation of disruptive business model innovation.

1.4 Research Questions

Taking the above research gaps into account, the study aims to answer the following question: "In the context of disruptive innovation in an emerging country, what business model components contribute to the sustainability of a disruptive innovation, such as a low-cost airline?"

1.5 Research Objectives

With the research question in mind, the purpose of the study is to investigate key factors that enable or inhibit a disruptive innovation, such as a low-cost airline, in an emerging market like South Africa, and, secondly, to propose a conceptual model for sustainability within the context of disruptive innovations, such as a low-cost airline, in a developing country setting. The developed conceptual model will be tested in a subsequent study.

1.6 Theoretical Framework

The researcher adopted a theoretical framework of the business model based on studies conducted by Johnson et al (2008). The theoretical framework, discussed in chapter 4, assumes that business model components such as customer value proposition, profit formula, key resources, and key processes contribute to the sustainability of a low-cost airline. The purpose of the theoretical framework was to provide a foundation in interpreting and verifying the primary data (Anfara & Metz, 2006).

The researcher adopted the framework due to the fact that firstly, the researcher aimed to investigate key business model components that influence the sustainability of an airline and secondly, if the components mentioned by Johnson et al (2008) are combined correctly, then value will be delivered. The implication of the business model components being combined provided a platform for the researcher to investigate the components even further to discover the business model components that affect an airline specifically.

1.5 Theoretical Significance

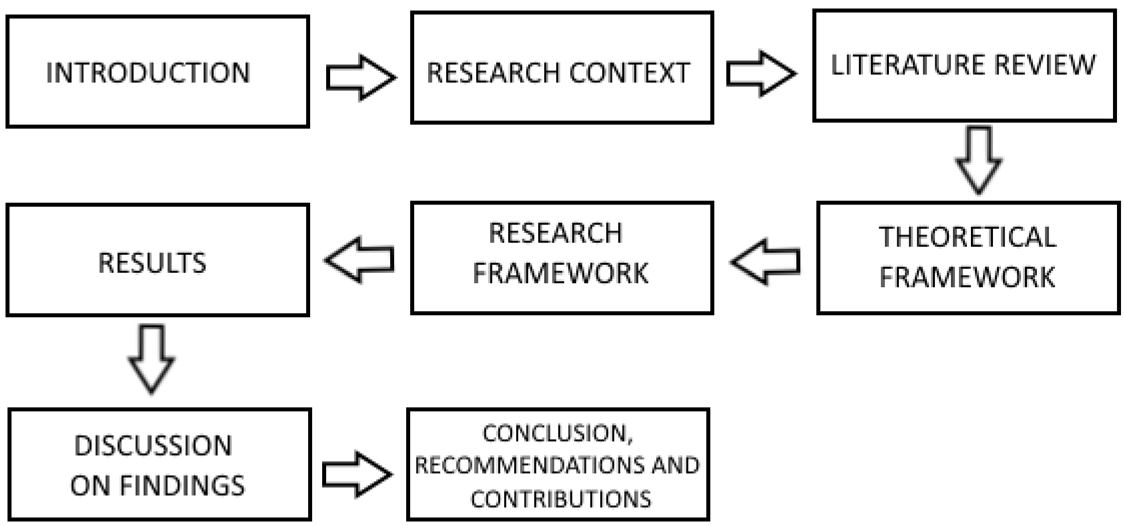
This study contributes to two theoretical areas. The areas include business model innovation theory and services marketing. With specific reference to business model innovation theory, the study adds airline specific insight to the knowledge of services marketing by providing the various views adopted by managers of low-cost airlines and airline consulting companies. With reference to service marketing, the study adds knowledge to marketing by providing insights from the airline perspective.

1.6 Methodology

Managers of leading low-cost airlines in South Africa were selected using the judgmental sampling method and were requested to participate in separate individual in-depth interviews. The participants were asked questions on the commercial airline industry, the business models of airlines and low-cost airlines. The data was analysed using the Glaserian coding method. Three themes were developed from the findings and a conceptual model was proposed.

1.7 Dissertation Structure

Figure 1: Dissertation structure



Source: Developed by the researcher (2015)

Using figure 1 as a graphical reference, this dissertation will adopt the following format: Chapter 2 provides a detailed discussion of the research context while Chapter 3 discusses the relevant literature surrounding the topic of low-cost airlines and innovation. Chapter 4 outlines the theoretical framework while Chapter 5 discusses the research framework. Furthermore, Chapter 5 discusses the methodology adopted by the researcher. Chapter 6 discusses the results of the data analysis. Chapter 7 provides a discussion on the findings and Chapter 8 provides a discussion on the theoretical significance, practical significance, managerial implications, limitations, and recommendations for future research.

1.8 Conclusion

This chapter discusses the study's background, problem statement, research gaps, research questions, theoretical significance, methodology, and the dissertation structure. In summary, it mentions that that high number of exits from the commercial airline industry, when viewing 1time specifically, is attributed to external factors and that this study aims to investigate internal factors such as the business models employed by airlines and their relation to airline sustainability.

CHAPTER 2: RESEARCH CONTEXT

2.1 Introduction

The purpose of this chapter is to provide an overview of the study's context. As a reminder, the study's context is the commercial airline industry in South Africa. This chapter discusses airline business models, airline key performance indicators, history of the South African commercial airline industry, drivers and inhibitors of low-cost models in the South African commercial airline industry, challenges facing South Africa airlines, low-cost business models in the global airline industry, and emerging countries.

2.2 Airline Business Models

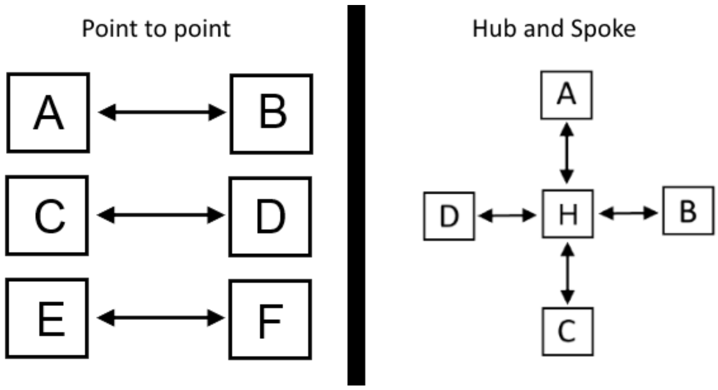
In the introductory chapter, a brief distinction on the difference between low-cost airlines (LCA's) and full-service airlines was provided. In this section, the typology of airline business models will be discussed in detail. In total, there exist nine different airline business models. These are a traditional full-service airline, low-cost airline, a charter airline, regional airline, business jet charter, air taxi, all-business airline, and cargo airline (International Air Transport Association Training & Development Institute, 2015).

An LCA's business model is heavily focused on reducing costs. From a pricing perspective, LCAs reduce costs by charging a base fare price, which covers the bare minimum service to travellers. Furthermore, if the travellers desire extras such as baggage allowance and food, then an additional fee is charged over and above the base fare. In summary, the practice of charging a base fare and charging for extras is better known as unbundling. Full-service airlines, on the other hand, aim to obtain high yielding passengers (passengers who are not price sensitive) while offering the full service. Legacy airlines typically aim to obtain high yielding passengers by categorising their inventory with each category possessing its respective service levels. Typically, these categories are economy class, business class, and first class (Groß & Alexander, 2007). Other characteristics associated with full-service airlines include high production costs, wide route networks, promotion of frequent flyer programmes, and the use of revenue management techniques (International Air Transport Association Training & Development Institute, 2015).

Methods such as unbundling are one of the many methods low-cost airlines use to gain a cost or revenue advantage. Moreira, O'Connell, and Williams (2011) listed other methods in gaining a cost or revenue advantage. These methods include serving secondary airports, high aircraft utilisation and high labour productivity to increase efficiency, possessing a common fleet, lower salaries, outsourcing services, ancillary revenues, effective negotiations, single class configuration on all aircraft in the fleet, low admin costs, internet bookings and a website that includes third party suppliers.

With regards to the network model, full-service airlines mainly adopt a 'hub and spoke' model while low-cost airlines adopt a 'point to point' model. The main objective of a hub and spoke model is to connect passengers between two cities and to connect passengers between two distant cities through its hub. When considering Emirates, the airline utilises a hub and spoke model by using Dubai as its hub. In essence, Emirates can transport passengers from Dubai to almost any city around the world (Emirates, 2017). The hub allows passengers to travel from one distant city to another using Dubai as a connecting point. In a situation where connecting through a hub is impractical, a codeshare agreement between two airlines is created to solve this problem. A codeshare is an agreement between two airlines to share a particular flight. The agreement allows an airline to buy seats on a flight operated by another airline and then sell those seats to its passengers (International Air Transport Association Training & Development Institute, 2015). The 'point to point' model, on the other hand, focuses only on providing passengers services between two cities. An airline that has adopted this model is Southwest Airlines. It currently serves 93 destinations in 43 states in the United States (Southwest Airlines, 2014). A graphical illustration of the model is provided below in figure 2.

Figure 2: A graphical representation of the 'point to point' and 'hub and spoke' models



Source: Derived from Groß & Alexander (2007) and Derived from IATA Training & Development Institute (2015)

Charter airlines focus on renting entire aircraft as opposed to full-service airlines and low-cost airlines who offer seats on an aircraft. Charter airlines are differentiated from other airline business models by the following characteristics: the utilisation of a seasonal schedule that is integrated with tour operators, low costs per unit and a small to medium size fleet. Hybrid airlines possess characteristics of both full-service airlines and charter airlines. They offer scheduled, chartered and unscheduled flights, they utilise a seasonal schedule and emphasise the reduction of costs. Regional airlines usually operate short and medium haul flights that are between three to six hours in length. They act as a feeder for larger airlines and operate aircraft that can accommodate one hundred passengers. An all-business airline operates an all business class service. Based on this cabin configuration, the clientele is typically business travellers and the routes serviced are business routes. Business jet airlines typically utilise the point-to-point network model, operate on demand, offer full service, and typically attract business travellers. Air taxies also utilise the point-to-point network model and operate on demand but they typically operate low-cost aircraft and use short routes. Cargo airlines are designed to carry cargo from one point to another. Full-service airlines may offer a cargo service but there are airlines that only perform cargo services (International Air Transport Association Training & Development Institute, 2015). A summary of the various airline business models and their associated characteristics are provided below in Table 1.

Table 1: Airline business models and associated characteristics

Airline Business Model Type	**Associated Characteristics**
Full-Service Airline	• Differentiated products • Use of revenue management techniques • High production costs • Wide route network • Frequent flyer programmers • Hub and spoke network model. • Operate short-haul, medium-haul, long-haul and ultra-long-haul flights
Low-cost Airline	• Point to point network model • Operate short flight lengths • Lean business practices • Common fleets • Low overhead costs

	• Unbundling product to offer low fares • Serving secondary airports • High aircraft utilisation • High labour productivity to increase efficiency • Possessing a common fleet • Lower salaries • Outsourcing services • Ancillary revenues • Effective negotiations • Single class configuration on all aircraft in the fleet • Low admin costs • Internet bookings and a website that includes third party suppliers
Charter Airline	• Seasonal schedule • Rent out aircraft • Low-cost per unit • Small to medium size fleet
Regional Airline	• Operate short and medium haul flights • Commuter traffic • Feeder traffic • Regional aircraft that accommodates 100 passengers
Business Jet Charter	• Point to point network model • Operate on demand • Offer full service
Air Taxi	• Point to point network model • Operate on demand • Use of low-cost aircraft • High capacity
All-Business Airline	• Clientele consist of business travellers • Operate business routes • All business class configuration

Cargo Airline	• Carry cargo • Use cargo aircraft

Source: Derived from IATA Training & Development Institute (2015) *and Groß & Alexander* (2007)

2.3 Airline Key Performance Indicators

This section will discuss all key performance indicators used by airlines. The indicators include Revenue Passenger Kilometre (RPK), Available Seat Kilometre (ASK), Yield, Revenue Available Seat Kilometre (RASK), Unit Costs, and Load Factor. Each indicator will now be explained.

RPK is the product of kilometres flown on a particular flight and the number of passengers on that particular flight. It is used as a measure of passenger traffic.

ASK is defined as the product of the kilometres flown on a flight and the number of seats on the aircraft used to conduct that particular flight. The ASK indicator is used to measure passenger capacity.

Yield is the average price paid by a traveller per kilometre on a particular flight. It is calculated by dividing actual revenue by Revenue Passenger Kilometre (RPK). From an airline perspective, the objective is to maximise the yield value.

RASK is a measure of unit revenue. It is calculated by dividing the actual revenue by ASK. The objective is to keep this value as high as possible.

Unit Cost measures the cost per available seat kilometre. The objective is keeping this value as low as possible and one calculates it by dividing the airline's cost by ASK.

Load Factors are defined as a measure of capacity utilisation. In other words, it measures how well an airline balances its capacity and its traffic. Load factors are calculated by dividing RPK by ASK and is represented as a percentage (IATA, 2015; International Air Transport Association Training & Development Institute, 2015). A summary of airline key performance indicators is provided in Table 2.

Table 2: Summary of airline key performance indicators

Indicator (Abbreviation)	Purpose	Calculation
Revenue Passenger Kilometre (RPK)	Used as measure of passenger traffic	$KM'S\ ON\ A\ SECTOR \times NUMBER\ OF\ PASSENGERS$
Available Seat Kilometre (ASK)	Used to measure passenger capacity	$KM'S\ ON\ A\ SECTOR \times NUMBER\ OF\ AIRCRAFT\ SEATS$
Yield	Measure revenues per RPK	$AIRLINE\ REVENUE/RPK$
Revenue Available Seat Kilometre (RASK)	Measure of unit revenue	$AIRLINE\ REVENUE/ASK$
Unit Costs	Used to measure the cost per available seat kilometre	$AIRLINE\ COSTS/ASK$
Load Factor	Used as a measure of capacity utilisation	RPK/ASK

Source: Derived from IATA Training & Development Institute (2015) *and IATA (2015)*

2.4 Brief History of Airlines in South Africa

South African Airways (SAA) was founded in 1934 subsequent to the South African government acquiring Union Airways. In the period from 1946-1980, the airline expanded with notable increases in areas such as passenger numbers, fleet size, and destinations (South African Airways, 2014). During 1943, Comair Airways Limited (Comair) entered the market as a competitor to SAA. It was founded by four members of the South African Airforce. Like SAA, Comair expanded and in 1996 a franchising agreement was made with British Airways. The agreement resulted in Comair operating as British Airways (Comair Limited, 2014).

The two airlines (SAA and Comair) also introduced low-cost airlines of their own. Comair was the first to do so with the introduction of Kulula.com as a trading name in 2001. Kulula did not operate as a separate autonomous airline. Furthermore, Comair absorbed its financial results (Comair Limited, 2014). Concerning South African Airways, they introduced a low-cost airline called Mango in 2006. However, Mango was introduced as a separate entity which was fully owned by South African Airways (South African Airways, 2014). Now case studies on low-cost airlines in South Africa will be discussed.

2.4.1 Short Case Studies

2.4.1.1 Mango

Mango started operating in 2006. It was introduced to meet the demands of low-cost travel in the South African domestic market and to assist SAA in regaining some of the market share which was held by other domestic low-cost airlines. The low-cost airline started with a fleet of four aircraft and flew on average thirty flights a day to five destinations. The introduction of Mango proved to be successful for SAA as it assisted SAA in achieving a revenue increase from R19.1 billion to R20.6 billion in 2007. Concerning Mango's success, the low-cost airline managed to obtain market share in excess of 10% within its first five months of operation (South African Airways, 2008).

In 2008, the airline brought about innovative initiatives. They did so by making the purchases of tickets more accessible. Examples of such innovations include purchasing tickets via retail store credit, EFT, at major supermarkets such as Shoprite and at Computicket. The airline also desired to maintain a low-cost structure and found an effective method of combating the fuel price. It did so by operating a fleet, which was the most fuel-economic on a per seat basis (South African Airways, 2008). In 2009, the airline was facing challenges in the rising costs of fuel, however, the challenges were mitigated by the use of ancillary revenue and cost reduction strategies. In the same year, the airline experienced market share increases on all its routes and continued to do so in 2010 (South African Airways, 2011).

Mango also experienced an R18.5 million pretax profit in 2010, which was a 9% increase from the previous year. In 2011, the airline added another destination to its network to capture demand in other areas but the introduction of the new route was met with challenges. In that year, the price of fuel rose by 27%, airport taxes, levies, and ticket prices also rose during the year. The trend of increases in airport taxes, fuel and ticket prices continued into 2012 resulting in Mango recording a net loss for the year (South African Airways, 2013).

2.4.1.2 1time

1time commenced operations in 2004 with the aim of meeting the demand of the low-cost travel market. In 2006 and 2007, the airline recorded after-tax profits of R24 million. In 2007, the airline experienced a 36% growth in revenue and 34% growth in passengers.

In 2008, the airline experienced a loss of R9 million despite experiencing a 56% growth in revenue and 18% growth in passengers. The recorded loss was mainly attributed to the global credit crisis, fuel price increases, and currency volatility.

In 2009, the airline achieved R82.6 million in headline earnings, R1.25 billion in revenue which was a 19% increase from the previous year and a 12% increase in passenger growth. The trend continued into 2010 (1time Holdings, 2010). The airline recorded 4.6% increase in revenue growth, 6.7% increases in passenger growth and R46.3 million in headline earnings.

Their success soon came to an end and the airline ceased operations in 2012. The reason for its halt in operations was due to the oil price and the exchange rate between the Rand and the Dollar. One month before the firm filed for liquidation, it reported a loss of R43.5 million for the six months to June 30, 2012. The company was in debt of R400 million and could not negotiate a settlement with its creditors. A plan was initiated to save the airline but it proved to be unsuccessful (Hedley, 2012).

Since its closure, numerous bids were offered to revive the airline. One bid in the region of R15 million was offered by a group of Pakistani investors (Pak Africa Aviation) who intended to use the airline as an intra-regional service. Harare was the intended main hub (Smith, 2013).

1time is only one of many cases where airlines in the South African domestic market have become defunct. The high number of airlines becoming defunct in South Africa is a concern. Since 1991, ten airlines have been liquidated. Common causes of theses airlines being defunct are oil prices, exchange rates, decreasing demand and market size. The current surviving airlines in South Africa have managed to withstand the ever-changing forces known to cause the demise of airlines (1time Holdings, 2010; South African Airways, 2014; Comair Limited, 2014; Hedley, 2012).

2.4.1.3 Velvet Sky

Velvet Sky was a low-cost airline based in Durban due to commence operations in March 2011. The airline planned to service Cape Town and Johannesburg from Durban with three Boeing 737 aircraft. It differentiated itself from its competitors by offering fares similar to intercity bus fares. The reason for their entry into the market was due to an increasing number of delayed flights and the limited amount of seats supplied by airlines (Business Day Live, 2011).

The airline was unable to operate not even one flight due to its inability to pay for fuel. According to BP, Velvet Sky bought fuel on credit and R29 million was owed to them. Subsequent to their dispute with suppliers, Velvet Sky flights were delayed and eventually suspended. The suspension of flights allowed the airline time to reestablish their board and short-term strategy (Bussiness Day Live, 2012). However, the flight delays led to reputational and brand equity damages. BP later filed a provisional liquidation application against Velvet Sky and the airline was unable to procure fuel from any other fuel supplier due to the application filed against it (West, 2012).

Besides its credit dispute with BP, Velvet Sky also had credit difficulties with other suppliers. On 24 February 2012, the airline ceased operations due to a contractual dispute with a service provider (West, 2012) and used the cessation in operations as a means to renegotiate with suppliers, protect its brand image and provide a rescue plan for the airline (Smith, 2012). Eventually, the negotiations proved to be unsuccessful and the airline was then liquidated on June 21, 2012 (Business Day Live, 2012).

2.4.1.4 Skywise

Skywise began operations in March 2015. It operates as a brand under Pak Africa. The airline was led by the founder of 1time and started to operate Johannesburg and Cape Town flights with two Boeing 737 aircraft. The airline also plans to expand into the regional space at a later stage. The reason for its entry was to provide value for money to travellers but this philosophy was not focused on the price of seats but rather on a high standard of service (Maqutu, 2015).

The airline along with FlySafair caused a decrease in the average fares paid but the airline has experienced challenges. In October 2015, the airline had to cancel two flights due to them not paying suppliers. The cancellation of flights led to the airline having to pay refunds and suffer damage to their brand image (Business Day Live, 2015). In December 2015, Airports Company South Africa (ACSA) grounded all Skywise flights indefinitely because of unpaid airport charges for a variety of airport services (Business Day Live, 2015).

2.4.1.5 FlySafair

FlySafair is an airline that commenced operations in October 2014. It is the low-cost brand of Safair: a charter, freighter, and a leasor of aircraft. Prior to the launch of FlySafair, the airline experienced a challenge in obtaining its operating licence due to its ownership structure. For an airline to obtain a scheduled passenger service licence, its foreign ownership should not exceed twenty-five percent (Smith, 2013). The reason for the entry of FlySafair into the South African market was to stimulate the demand for air travel and thus it even made the fares similar to bus tickets (Maqutu, 2014). The airline did not manage to attract business travellers due to its limited network but it was able to stimulate demand with its pricing but some analysts have suggested that such a strategy is unsustainable given the nature of the South African market (Maqutu, 2014).

2.5 Low-cost Business Models in the Global Airlines Industry

The first ever low-cost airline was Southwest Airlines. It commenced its operations in 1971 and served Houston, Dallas and San Antonio with three Boeing 737s in its fleet. It is now the world's largest low-cost airline with a fleet size of 583 aircraft and operates more than 3400 flights per day serving 89 destinations (Southwest Airlines, 2014). The key components in its business model that differentiates itself from other airlines are using a single model of aircraft, using a network plan of a point to point instead of a hub and spoke, a single class service, no meals and no prearranged seating plans (Raynor, 2011).

Other airlines in the United States with a similar business model to Southwest Airlines also entered the low-cost airline market such as AirTran Airways (1992 as ValuJet Airlines), Allegiant Air (1997 as WesJet Express), Frontier Airlines (1994), Jet Blue (1999), Spirit Airlines (1980 as Charter One), Sun Country Airlines (1982) and Virgin America (2004). Low-cost airlines were utilised in Europe with Ryanair and EasyJet being the most prominent players in the market.

2.6 Drivers and Inhibitors of Low-cost Models in the South African Commercial Airlines Industry

Concerning the South African commercial airlines industry, there are a few drivers that catalysed or inhibited the introduction of low-cost airlines in South Africa.

Firstly, from an economic perspective, South Africa has experienced a growing middle class since the introduction of its new government in 1994. The growth of the middle class enabled the growth of disposable income amongst the population and Small, Medium & Micro Enterprises (SMME's) which implies that services such as air travel became more accessible. Furthermore, low-cost airlines aimed to stimulate air travel among middle-class consumers and

SMMEs because there existed a perception among consumers that air travel is an expensive means of transport. In the cases where air travel was unaffordable, low-cost carriers aided this un-flown market by providing a more affordable means of transport (Banga & Mahajan, 2005).

Secondly, industry deregulation had varying effects on a global level. These effects included reduced prices, stimulation of airline traffic, increased competition, the emergence of low-cost airlines, development of hub-and-spoke network models, increased levels of market entry and exits, higher levels of efficiency and increased availability of seats. In South Africa, specifically, the deregulation of the airline industry led to a number of factors that assisted in the introduction of low-cost airlines. Due to deregulation in the commercial airline industry, private investors were able to start their own airlines. The implication of deregulation was a high number of entries and exits of airline business models since 1991. One of these airline business models adopted was low-cost airlines, which brought about increased air transport traffic and competition (Luke & Walters, 2013).

Despite all the drivers mentioned above, disruptive innovation in the commercial airline industry also met with inhibitors. The subdued economy, which was a result of the global financial crisis in 2008, saw a decrease in the number of passengers and a general decrease in revenue and profitability. The main challenges facing the South African commercial airlines industry, specifically, which led to the demise of other airlines, are the volatility in fuel prices and currency exchange rates (South African Airways, 2014).

2.7 The Challenges Facing South African Airlines

The sustainability of the services industry in the emerging market is distinct. In the commercial airline industry, factors such as the fluctuating oil price, fluctuating demand, emergence of substitutes, route density, and high fixed costs can hinder the potential of disruptive business models. In South Africa, the poor infrastructure, the existence of a population with low education coupled with low-income earners and the allowance of foreign airlines gaining excess capacity into South Africa can hinder the potential of disruptive innovations (Banga & Mahajan, 2005; Centre for Asian Pacific Aviation, 2010). Furthermore, fragmentation presents itself as another challenge facing airlines in South Africa. Fragmentation refers to the misalignment of airlines and its functions to other industries. (Smith, 2015). Poor connectivity also presents itself as another challenge faced by airlines in South Africa. The results of poor connectivity lead to losses in opportunities. Lastly, the devaluation of the rand results in the increase of the costs of fuel for airlines in South Africa. This leads to a shrinking customer base and the passing on of costs to customers (Engineering News, 2014).

2.8 Emerging Countries

2.8.1 What is an Emerging Country?

Regulatory bodies such as financial institutions define an emerging country or a developed country. In this particular study, the definition developed by Morgan Stanley Capital International (MSCI) will be used. The classification framework provided by the MSCI (2013) classifies countries as either as a frontier, emerging or developed. The classification is based on three primary factors, which are the sustainability of economic development, market accessibility, and market size. According to the MSCI framework, a country is defined as an emerging economy if three companies in that particular economy possess a full market of USD 1032mm, a float market cap of USD 516mm, and a security liquidity of 2.5% ATVR. Furthermore, the country as a whole should possess a significant openness to foreign ownership, a significant ease of capital inflows/outflows, good and tested efficiency of operational framework, and modest stability of institutional framework.

2.8.2 Opportunities and Challenges for Innovation Emerging Countries

Concerning opportunities and challenges, the characteristics of emerging countries may pose distinct opportunities and challenges to be exploited. Banga and Mahajan (2005) listed nine characteristics of emerging markets in the world along with opportunities and challenges, which are summarised in Table 3.

Table 3: The characteristics, challenges, and opportunities in an emerging country

	Characteristic and Challenge	Opportunities
1.	Demanding culture, economy and markets	Create new products and services to suit culture and traditions of the country in question. Build a culture of consumerism.
2.	High emigration rates to developed countries	Utilise resources of the developed world to meet the needs of consumers in the developing world.
3.	Fragmented markets	Develop or acquire local brands within the emerging economy.
4.	Increasing population sizes with youth	Provide an attractive setting for markets such as entertainment, apparel, fast foods, and music.
5.	Restricted income and space	Adopt methods such as small package sizes, demand pulling, and customising products for small methods to generate more revenue.

6.	Poor infrastructure	Allows firms to exploit or work around the gaps in the infrastructure or plug the gaps within the infrastructure.
7.	Underdeveloped technology	Allows firms to build new commercially viable technologies.
8.	Weak distribution channels	Firms should strengthen or use the existing channels to join the fragmented markets or to enable easier access to the market for the consumer.
9.	Rapid and frequent changes in markets	Evolve their business models to meet the ever-changing needs of consumers.

Source: Banga and Mahajan (2005)

2.8.3 Key Drivers for Innovation in Emerging Markets

Globalisation

Since the world is becoming a global village, multinational corporations are able to enter their products into new markets. An example of such a scenario is the rise of the Japanese companies that once served the low end of their own domestic markets and later served upper ends of markets in other parts of the world (Markides, 2012).

With regards to South Africa specifically, globalisation assisted in the growing of its economy in the 1990's and allowed manufacturers to gain a much larger customer base (Akello, 2013). From a services perspective, globalisation allowed for services such as airlines to grow in South Africa. Since the year 2000, there have been more low-cost carriers entering the market due to economic growth being experienced at that time (1time Holdings, 2010; South African Airways, 2014; Comair Limited, 2014; Hedley, 2012). The characteristics, challenges, and opportunities in an emerging country are summarised in Table 3.

Deregulation

Deregulation can also be a catalyst for innovation. When a regulatory body lifts particular restrictions, it allows previously restricted practices to be practised. Therefore, when one applies this logic to innovation, the previously restricted practices could allow innovation to occur. In the case of the Airline Deregulation Act of 1978, the whole competitive landscape in the commercial airline industry was changed because of this legislation. The legislation also allowed Southwest Airlines to expand up to the point where it ended up competing with legacy airlines (Wu, 2012).

Market trends

The market trends are also vital drivers for innovation. There will be meaningful trends that firms can exploit. Firms can take advantage of this trend by creating products or services that can create new markets because of the trend in question. An example of this phenomenon is the introduction of low-cost airlines into the market. The trend was that there was a significant number of travellers who desired to use air travel as a means to transport but they could not afford to do so. Furthermore, there were those who were flying as a means of travel who were price sensitive (International Air Transport Association Training & Development Institute, 2015).

2.9 Conclusion

In this chapter, the context of this is discussed. The main topics of the discussion include airline business models, key performance indicators for airlines, history of airlines, drivers of low-cost models within the South African commercial airlines industry, the challenges facing the South African airline industry, low-cost business models within the global airline industry, and emerging countries. The following chapter discusses the relevant literature concerning this topic.

CHAPTER 3: LITERATURE REVIEW

3.1 Introduction

The purpose of this chapter is to provide an extensive review of the literature relevant to the research question. As mentioned in the introductory chapter, the research question is stated as follows: "In the context of disruptive innovation in an emerging country, what business model components are necessary for a disruptive innovation, such as a low-cost airline, to be sustainable?" The theories relevant to the research question are innovation, disruptive innovation, business model innovation and service theory.

This literature review will adopt the following structure: innovation theory will be discussed in detail and it will then be followed by the business model. The chapter will be concluded with a summary.

3.2 Sustainability

3.2.1 Defining Sustainability and its relation to Airlines

Sustainability, in the general sense, is defined as the ability to maintain at a certain level or rate (English Oxford Living Dictionaries, 2017). However, for the purposes of this study, the general definition of sustainability is insufficient to address the issue of business sustainability. From a business perspective, sustainability is the management of financial, social, and environmental risks to ensure responsible and ethical success. Gao and Bansal (2013), affirm the previous statement by stating that sustainable development possesses three pillars which are economic prosperity, environmental integrity, and social equity. Economic prosperity refers to the improvement of human welfare by means of converting or distributing value locked by natural resources. Environmental integrity refers to recognizing the limits and value of natural resources and social equity refers to the equitable distribution of the value of the natural resources across all people. From an airline perspective, airlines provide economic prosperity by offering employment, wealth, increase in world trade and stimulation of tourism (Air Transport Action Group, 2004). From a perspective of environmental integrity and social equity, airlines now have the responsibility to reduce the impact that they have on the environment. Issues such as the use of jet fuel and carbon emissions are on the agenda when it comes to airlines and their impact on the environment (International Air Transport Association, 2017). Returning to the definition of business sustainabilty, Bansal and DesJardine (2014) define business sustainability as the ability of a firm to respond to their short terms needs without comprising their own ability to meet their own future needs and the needs of others.

Despite the concord displayed by the definitions in the previous paragraph, there are different perspectives of business sustainability in literature. Ferro, Padin, Svensson, Varela, Wagner and Høgevold (2017) state that little agreement exists on the definition of business sustainability and this is mainly because this field of knowledge is still in its infancy. To substantiate this assertion, The study states; "Several perspectives mirror the philosophy of urban development and globalisation as measures and indicators of development, and these perspectives consider the extent to which societies assimilate technological advancement as part of the ecosystem. Furthermore, other perspectives on business sustainability are the result of treaties between countries" (Ferro, et al., 2017, p. 126).

In an attempt to clarify the definition of business sustainability, Bansal and DesJardine (2014) argue that sustainability requires the consideration of time because firms have to make intertemporal trade-offs to safeguard intergenerational equity. Furthermore, they argue that if time is omitted from most strategic management objectives, short-termism is created. Short-termism is bane sustainability.

For the purposes of this study, sustainability is defined as the ability of an airline to continue its operations while meeting the demands set by three pillars, which are, social equity, economic prosperity and environmental integrity.

3.3 Defining Innovation and Typology of Innovation

One of the earliest instances of innovation mentioned in literature was when the term 'creative destruction' was coined by Schumpeter (1942). What is meant by this term is a process whereby an old economic structure is replaced by a new one in an incessant manner. In his earlier works, Schumpeter (1942) described innovation as an important driver of economic development and divided innovation into five types, i.e. new products, new production processes, new sources of supply, the exploitation of new markets, and new ways of organising business. 'New products' refers to the introduction of a product which is of higher quality or a new product with which the public are not familiar. 'New production processes' refers to the introduction of a new method of production. 'New sources of supply' refers to the acquisition of new raw materials for the production of goods. 'The exploitation of new markets' refers to a firm entering an established market or creating a new one. 'New ways of organising businesses' refers to the manner in which the firm intends to position itself within a particular industry.

From Schumpeter's (1942) theory of innovation and categorisation of innovation, categories of the degree of impact stemmed. These include radical vs incremental, modular vs architectural, and sustaining vs disruptive (Henderson & Clark, 1990; Christensen, et al., 2004). These categories, which refer to the degree of impact, will be discussed in detail later in the chapter.

Since a variety of studies on the topic of innovation exists, various authors have constructed and adjusted definitions for innovation suitable for their studies. Three definitions will be provided to prove this point. Firstly, Assink (2006, p. 217) defines it as: "The process of successfully creating something new that has significant value to the relevant unit of adoption". Secondly, Inauen and Schenker-Wiki (2011, p. 498) define innovation as "new combinations of existing and/or new resources and competencies". Lastly, Christensen et al. (2004) defined innovation as anything that can either bring about new or improve existing processes, values or resources within a firm. So, based on these three definitions, it is clear that, even though there is no consensus on a word-for-word definition of innovation, in particular, there are specific concords in those definitions. Based on Schumpeter's (1942) theory of innovation and the recently mentioned definitions of innovation, a few common factors can be identified. The first factor is that innovation comes with a degree of novelty whether the innovation is a new or improved product, service, business model or process, and the second factor is the innovation has to be commercially viable. So, based on these definitions of innovation, the study's definition of innovation will be "anything that can create a new/improved product, service, business model or process that is commercially viable and also adds value to the firm" (Schumpeter, 1942; Assink, 2006; Inauen & Schenker-Wicki, 2011; Christensen, et al., 2004).

3.3.1 Categories of Innovation Based on the Degrees of Impact

Besides the typology of innovation, there exist degrees at which the typologies can occur. The degrees of impact are summarised in Table 4 and a detailed discussion will follow the table.

Table 4: Categories of innovation

Categorisation	Author	Explanation

Radical vs. Incremental	Henderson and Clark (1990)	Incremental innovation refers to improvements that alleviate costs. Radical innovation refers to the unprecedented performance features of products processes and services.
Modular vs Architectural	Henderson and Clark (1990)	Architectural innovation changes the architecture but leaves the modules as unchanged. Modular innovation, on the other hand, changes the modules but leaves the architecture as unchanged
Sustaining vs Disruptive	Christensen, Anthony and Roth (2004)	Sustaining innovation is an innovation that moves a company along an established performance trajectory by introducing improved performance compared to existing products. Disruptive innovation is an innovation that creates either new markets or offers convenience or lower prices to customers in an existing market.

Derived from Henderson and Clark (1990) *and Christensen, Anthony and Roth* (2004)

Radical vs Incremental

Henderson and Clark (1990), and Arnold, Fang and Palmatier (2011) classify the concept of 'innovation' into four categories. Two of these categories are incremental innovation and radical innovation. Incremental innovation refers to improvements that alleviate costs and the addition of product, processes, and service features. Christensen et al. (2004) refer to incremental innovation as 'incremental sustaining innovation' and defines it as an innovation that provides minor improvements along an established trajectory. Henderson and Clark (1990) define incremental innovation as an innovation that reinforces the core components and leaves the linkages between the cores unchanged. Traits associated with incremental innovation are the exploitation of new technology and low uncertainty.

Radical innovation refers to the unprecedented performance features of products, processes and services. Leifer (2001, p. 103) defines radical innovation as "a product, process or service with either unprecedented performance features or familiar features that offer significant improvements in performance or cost that transform existing markets or create new ones". Christensen (2004) refers to radical innovation as radical sustaining innovation and defines it as an innovation that provides significant improvements over an established trajectory. Henderson and Clark (1990) define radical innovation as an innovation that overturns the core components and creates new linkages between those concepts. Traits that are associated with radical innovation are the exploration of new technology and high uncertainty. Another factor that distinguishes the two types of innovation is the effects each type has on the market. Incremental innovation improves the competition within an existing market while radical innovation creates new markets or transforms existing markets.

Modular vs Architectural

As mentioned before, Henderson and Clark (1990) divided innovation into four categories. The other two categories are modular and architectural innovation. Before the new dichotomy is discussed, what needs to be understood is that the dichotomies of 'incremental and radical innovation' and 'modular and architectural innovation' are not mutually exclusive but rather related based on the core components and the linkages between those components.

Architectural innovation changes the architecture but leaves the modules unchanged. An example of this type of innovation is the transition from a ceiling fan to a portable fan. Modular innovation, on the other hand, changes the modules but leaves the architecture as unchanged (Henderson & Clark, 1990).

Sustaining vs Disruptive

Christensen, Anthony & Roth (2004) define sustaining innovation as "an innovation that moves a company along an established performance trajectory by introducing improved performance compared to existing products". From this definition, Christensen also stated that both radical and incremental innovations are forms of sustaining innovation.

Concerning disruptive innovation, there are a variety of definitions. Assink (2006, p. 18) provided two definitions for disruptive innovation from two authors. The first definition from Lettice and Thomond (2002) describes it as "A successfully exploited product, service or business model that significantly transforms the demand and needs of an existing market and disrupts its former key players". The second definition from Brown (2003) states that it is "Something that changes social practices, the way we live, work and learn. It requires breaking conceptual frameworks, reframing the problem and going to the very roots of it". What these definitions have in common is the change that disruptive innovation brings to a market or social sphere.

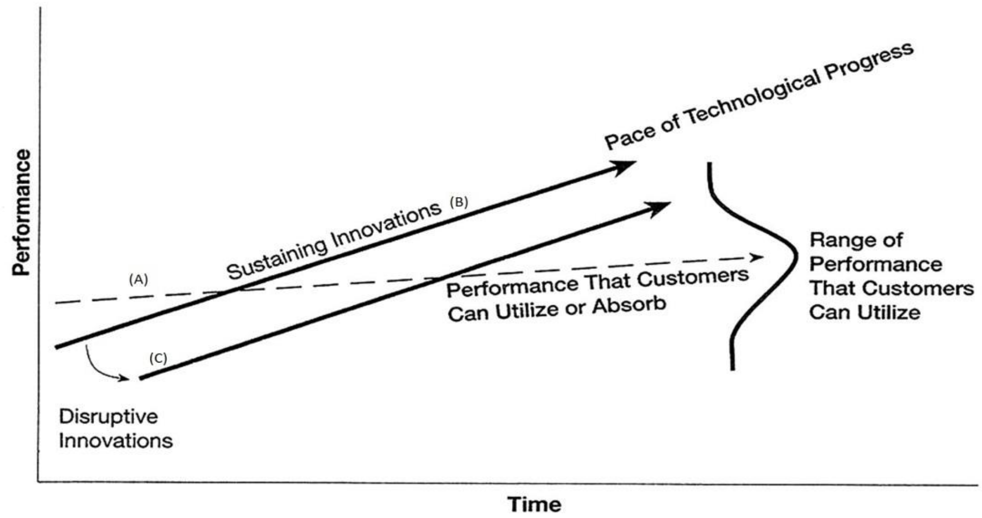
Christensen et al. (2004) described disruptive innovation as an innovation that creates either new markets or offers convenience or lower prices to customers in an existing market. Christensen & Raynor (2003) further classifies disruptive innovation into two categories. These types are low-end disruptions and new market disruptions. Low-end disruptions refer to innovations that exceed the need expectations of the market but can be offered at a lower price. Low-end disruptions are supported by a business model that can offer low prices and provide appealing returns. New-market disruptions refer to innovations that allow non-consumers to execute certain activities more conveniently.

3.4 Disruptive Innovation Theory

The disruptive innovation model attempts to explain how complex and expensive products are changed into simpler and more affordable products. Furthermore, the model was based on three main empirical findings, which were the distinction between sustaining and disruptive innovation, the pace at which technology develops compared to the pace of the consumers' adoption and the lack of investment attractiveness of investing heavily in disruptive technologies (Christensen, 2008; Christensen, 1997).

Christensen (2008) listed three important components of disruption, which is the rate at which customers utilise and absorb improvements, the distinct trajectory of improvement brought by innovating firms when new products or services are introduced into the market, and the difference between sustaining a disruptive innovation. These three components are used to predict how disruptive innovation occurs in a market where incumbents utilise sustaining innovation while a new firm utilises disruptive innovation. The visual description of disruptive innovation theory is provided in Figure 3 below:

Figure 3: Disruptive innovation model



Source: Christensen (1997) and Christensen (2008)

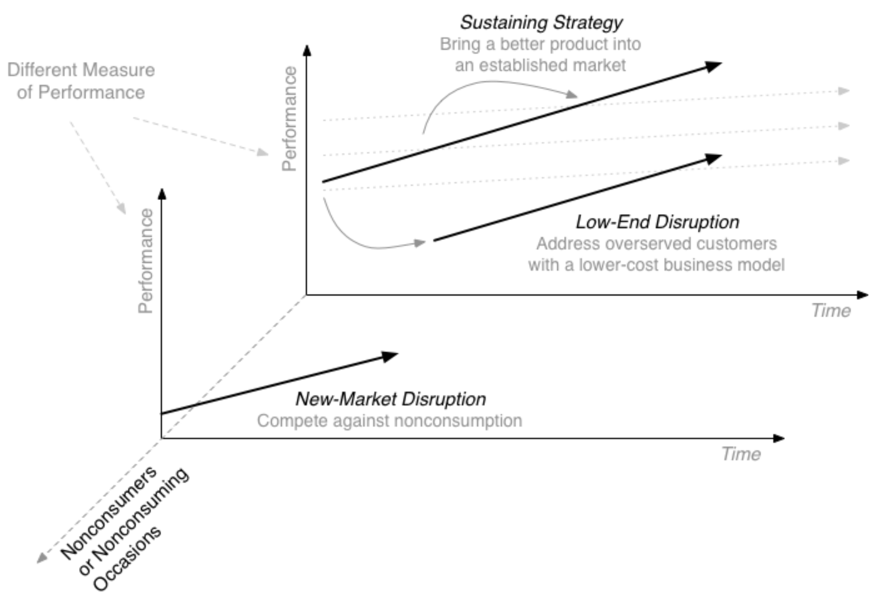
The horizontal axis represents time and the vertical axis represents performance. The dashed line (A) represents the rate at which customers utilise and absorb improvements. The gradient of this line is usually lower than the line representing sustaining innovations because customers are not able to utilise the product or service improvements fully. An example of this can be seen in personal computers. A computer CPU can be quoted as having a processing speed of 3.2GHz but in reality, the CPU will run at 3.0 GHz because if it runs at full capacity other complications may arise.

Line B represents sustaining innovation. As mentioned earlier, sustaining innovation is an innovation that moves a company along a recognised path by phasing in improvements as compared to existing products. Sustaining innovations can occur incrementally and radically (Christensen, et al., 2004; Christensen, 2008). The gradient of this line is significantly higher than the line that represents the rate at which customers utilise and absorb improvements (A) because firms want to satisfy the needs of unsatisfied high-end customers. This allows a firm to make better profits on the products they intend to sell to the high end of the market (Christensen & Raynor, 2003; Christensen, 2008).

Line C represents disruptive innovations. A disruptive innovation is defined as an innovation that either creates new markets or offers convenience or lower prices to customers in an existing market (Christensen, et al., 2004; Christensen, 2008). Disruptive innovation can be separated into two categories which are low-end disruptions and new market disruptions. Just like the line representing sustaining innovation (B), the gradient of line B is significantly higher than the line representing the rate at which customers utilise and absorb improvements (A). However, this line will start off at a lower performance point as compared to sustaining innovations because disruptive innovations are mainly aimed at the low-end markets as compared to sustaining innovations which are mainly aimed at the high-end markets.

At this point, the circumstances of disruptive and sustaining innovation in the disruptive innovation model have been discussed. However, the illustration in Figure 1 does not explain the full story. As mentioned earlier, disruptive innovation has two forms. The model only explains the disruption innovation from two dimensions, which are time and performance. The third dimension, displayed in Figure 2, is non-consumers and non-consuming occasions, which mainly involve new markets, new customers at the low end and new ways in which a product can be consumed. The line representing the third dimension is the dotted line pointing in a southwestern direction. Since the third dimension represents new markets, new low-end customers and new methods and contexts in which a product can be consumed, a vertical axis can be drawn from the line because each new market, customer type, and new consumption method represents a new or different measure of performance (Christensen & Raynor, 2003).

Figure 4: Disruptive innovation model displaying the third dimension



Source: Christensen, Anthony and Roth (2004) and Christensen (2008)

3.5 Transition from Disruptive Technology to Business Model Innovation Theory

Chesbrough (2012) coined the term ‘open innovation. The definition of this term is the utilisation of purposive inflows and outflows of knowledge to stimulate internal innovation and enlarge the markets for external use of innovation. The concept of open innovation serves as a direct opposite of the traditional innovation model, which holds the view that internal activities within the firm lead to internally developed products and services that the firm disburses. The main assumption when considering these two concepts is that the business model stays fixed. Realising this assumption, Chesbrough (2006) investigated the case of the business model being integral and later argued that the business model is integral in implementing a successful innovation and could even enable failed projects to be successful. The assertion made by Chesbrough (2006) was supported by a research programme conducted by himself on Xerox Corporation and 3Com. Xerox used Ethernet (a specific technology) as a standard wiring component in all its copiers but this specific use of Ethernet was not as valuable as an independent product which was utilised by 3Com. There are two points from this scenario. Firstly, a firm may not be able to capture the value of a specific technology because the design of the business model is not appropriate for the firm to capture the value of the technology. Secondly, a good business model needs to support the technology.

3.5.1 The Business Model Concept

Concerning the theoretical foundations of the business model, early researchers based the business model mainly on revenue generation and value proposition. The variety of thoughts for a business model and the lack of consensus for a single definition led to a division of the streams of thoughts into schools of thought. Three schools of thought emerged as a result. The schools of thought are the e-commerce school of thought, the strategy school of thought and technology, and the innovation management school of thought. The e-commerce school of thought deals with the business model in the context of internet based business. The strategy school of thought deals with the resources to gain a sustainable competitive advantage and adding value. The technology and innovation management school of thought views the business model as commercialisation aspects of technology and innovation (Sabir et al., 2012).

As mentioned earlier, a variety of definitions concerning the business model exist. The definitions do not clash but rather view the business model differently. To justify this point, consider a particular study conducted by Baden-Fuller and Morgan (2005) on the various roles business models undertake. The study provides various definitions from different authors concerning the definition of the business model. By considering all the various definitions provided in the study, it was concluded that business models possess a multivalent character.

Now, various perspectives and definitions of the business model are provided in order to produce a working definition of the business model for this particular study. Teece (2010) stated that a business model serves two functions. Firstly, it supports the logic and provides data and other evidence that demonstrates how a business creates and delivers value to customers. Secondly, it outlines the architecture of revenues, costs and profits associated with the business enterprise delivering that value. Teece (2010) also provided components on what will increase the effectiveness of a business model. These components are the technologies and features which are to be included in the product or service, the customer benefit in consuming the product and service, target market, revenue streams and value capture mechanisms.

Casadesus-Masanell and Enric Ricart (2010) presented a framework that attempts to integrate the business model, tactics and strategy. The framework affirms that the business model possesses two components. The first component is the material choices that management make the operation of a firm and the second component is the consequences of those choices. If a firm makes a decision on pricing, then there would be implications for revenue and demand. The framework defines tactics as the remaining choices available to the firm from the business model it employs. If the firm makes a decision on pricing and understands its implications, then the choices that come because of the initial decision are the tactics. Strategy refers to the contingent plan on which type of business model should be utilised.

Lindgren (2012, pp. 54-55) stated that in academia, the term ‘business model’ is discussed at an overall level and possesses many definitions and most of the definitions are related to the term ‘core businesses’. The core business is defined as, “How a business idealised construction intended for ‘main’ and ‘essential’ business activities". Lindgren further stated that some businesses today have more than one business model and adopt the multi-business model approach, and stated that there are different or other types of business models. Lindgren further supplemented this definition by stating that the business model consists of seven building blocks. These building blocks are a value proposition, customer groups, value chain, competencies, networks, relations, and value formula.

Doganova and Eyquem-Renault (2009, p. 1560) provided four main broad definitions for the business model. The first definition is the company’s logic of value creation. The second definition is the method by which the company generates revenue by defining its position in the value chain. The third definition is the design of governance, transaction content, and structure in order to create value by exploiting opportunities. The fourth definition refers to the main questions managers should ask about the method by which value is delivered to customers and the business, and the method by which revenue should be generated.

Amit and Zott (2001) point out that the objective of a business model is to exploit opportunities by creating value for all the parties involved and creating customer surplus while generating profit for the local firm and its partners. Ghaziani and Ventresca (2005) describe the business model as the firm's rationale for value creation. Chesbrough and Rosenbloom (2002) define it as the manner in which the firm generates revenue by defining its position in the value chain. Gambardella and McGahan (2010) define the business model as an organisation's approach to generating revenue at a reasonable cost and its assumptions about how it will both create and capture value.

Johnson, Christensen and Kagermann (2008) stated that the business model has four key components and, when these components are combined, they deliver value. These components are customer value proposition, profit formula, key resources, and key processes. Customer value proposition involves defining the target customer, identifying the need and fulfilling the need. The profit formula involves constructing a revenue model, defining the necessary costs, identifying the profit for each transaction in order for an overall profit to be made and identifying the speed at which resources need to be utilised in order to support target volumes. Key resources are required in order for a profitable customer value proposition to be delivered. These resources include people, technology, equipment, information, channels, alliances, and the brand. Key processes ensure that the delivery of the profitable customer value proposition is repeatable.

Demil and Lecocq (2010) define the business model as the composition of a firm's activities with the purpose of creating a value proposition. They also list two different uses of the business model concept. These are the static approach and the transformational approach. The static approach refers to the business model being used as a blueprint for the consistency between the core business and business model components. The transformational approach refers to the business model as a means to implement change and innovation in either the organisation or the business model. Using the RCOV framework as a basis, they create the concept of business model evolution by integrating the two different uses of the business model. Because of this method, they define business model evolution as "a fine-tuning process involving voluntary and emergent changes in and between permanently linked core components". Furthermore, they also coined the term 'dynamic consistency'. The definition of this term is the anticipation and the appropriate reaction to sequences of voluntary and emerging change.

Lindgardt, Reeves, Stalk & Deimler (2009) claim that the business model consists of two important components, the value proposition and the operating model. Each component contains three subcomponents. The value proposition deals with the product offering and the target market. The operating model deals with the profitable execution of the business model.

Based on all the above-mentioned definitions, perspectives and the context of this study, the definition of a business model for this particular study stated as follows: "A business model is a rationale of how the business should be operated in order to capture value". At this point what has been mentioned in the definition is the purpose of the business model, however, the definition lacks the component of business model innovation. This will be discussed in the following section.

3.5.2 Business Model Innovation

In the previous section, a definition of business model innovation was constructed. However, the previous section did not mention the concept of business model innovation. In Section 2.3, mentioned that a suitable business model needs to support a specific technology in order for the firm to capture the full value of the technology in question. Bringing about the correct business model in order for a firm to capture value is known as business model innovation (Chesbrough, 2010). Gambardella and McGahan (2010) take on a different perspective by describing it as the moment when the firm embraces a unique approach to commercialising the underlying assets. Lindgardt (2009) state that business model innovation occurs the adjustment of both the value proposition and the operating model occurs in order for the unique deliverance of value.

Therefore, for the purposes of this study, based on the context and all the above literature pertaining to the business model, the definition of business model innovation is stated as follows: "Changes to the rationale on how the business should be operated in order to capture the value of the innovations, which can be in either products or services".

3.5.3 The business model in the social scene and emerging economies

In the previous section, various approaches of the business model were provided. These approaches all mentioned that the business model ultimately served the purpose of creating value in developed markets. This section will provide a detailed discussion on alternative purposes of the business model and their relevance in emerging markets.

Thompson and MacMillan (2010) advise that firms are able to create business models that not only open new markets and create wealth but also to assist in alleviating social disparities. According to them, developing markets have considerable social disparities that should be addressed. They also provide a framework on how to implement a business model in such an environment. However, they do disclose that the framework is not a prescription but rather a starting point for debate. Their framework lists six main steps for the creation of a business model in an emerging market designed to create new markets and alleviate social disparities. Each main step contains recommended actions relevant to the main step. The six steps are defining the ballpark, conducting a sociopolitical analysis, designing a low-cost pilot and hypothesising a path to scalability, preplanning disengagement and using a discovery-driven process to learn by effectuation. A summary of the steps can be found in the table below.

Table 5: Steps for the creation of a business model in an emerging market

Step	Name	Recommended actions
1	Defining the ballpark	• Specify disqualifying conditions • Specify minimally acceptable performance outcomes • Determine rules of engagement
2	Conducting a sociopolitical analysis	• Beneficiaries • Potential allies • Indifferents • Meaningful opponents
3	Designing a low-cost pilot and hypothesising a path to scalability	• Specify the unit of business • Specify the mechanisms needed to achieve desired societal outcomes • Hypothesise a path to scale
4	Preplanning disengagement	• Anticipate second order effects

5	Using a discovery-driven process to learn by effectuation	

Source: Derived from Thompson and MacMillan (2010)

A study conducted by Yunus, Moingeon and Lehmann-Ortega (2010) reviewed the progressive advancement of Grameen's proficiency in developing social business models. The study presents five findings from reviewing the Grameen business model innovation. Three of the five findings are similar to traditional business models while the remaining two are unique to social business models. The three findings similar to the traditional business model innovation are contesting traditional wisdom and fundamental assumptions, finding compatible partners and embarking on a constant experimentation process. The findings unique to social business models are supporting social profit-oriented shareholders and distinctly identifying the social profit objective. The study also claims that social disparities can be addressed in a capitalistic economy if the new business models replace shareholders with stakeholders and make them the focus of value maximisation.

Dahan, Doh, Oetzel and Yaziji (2010) argue that multinational corporations face challenges when entering developing markets. These challenges include adjusting their own business models in accordance with the local economy, society and institutions. Furthermore, they suggest that multinational corporations collaborate with non-governmental organisations to create products and service that both deliver value and address social disparities. They offer four strategies in making such partnerships successful. These strategies are innovating the composition of the resources and skills held by both the firm and the NGO, building trust between the NGO and the firm, finding a common purpose for both the NGO and the firm, and strengthening and comprehending the local business infrastructure and the environment.

Williamson (2010) argues that the most universal business models are being faced by an array of challenges brought on by new market players from emerging economies. These new market players are using their cost advantage in novel ways with regard to superior technology, diversity and customisation at relatively low price premiums instead of focusing all of their attention on products with little to no differentiation. This strategy adopted by new market players is known as 'cost innovation'. His study suggests that, because the new business models are focused on value for money, incumbents will need to find novel means of attaining sustainability but this should be grounded on a new mindset that will enable the creation of new business models.

3.5.4 Implementation of the business model

In the previous section, the application of the business model was discussed in reference to emerging economies. This section will discuss the application of the business model in other sectors.

Itami and Nishino (2010) view the business model as an abstract plan with two elements. The elements include a business system and a profit model. They also argue that the business system is the more integral of the two even though the latter attracts more attention. Furthermore, the business system’s functions are twofold. Firstly, it creates and distributes their products and, secondly, it serves as a function for the firm to learn about its operations and the conduct of its suppliers and customers. The accumulation of this learning can result in the firm gaining a considerable competitive advantage but it could be potentially wasted if the incorrect activities are performed. They ultimately suggest that the business model needs to achieve two objectives: firstly, to create profits for the short term and, secondly, to learn information for the long term.

Sosna, Trevinyo-Rodriguez and Velamuri (2010) investigated how an established business model innovates itself given the situation that the business model could be weakened by alterations in the external environment. Using Naturehouse as a case study, the study suggests that trial-and-error learning is essential in innovating a business model given alterations in the external environment.

Svejenova, Planellas and Vives (2010) investigated the individual business model and the set of activities, strategies and resources used by individuals to create and deliver value while pursuing their own interests. Using a longitudinal inductive case study, the authors investigate elicitors, processes and alterations in the developing individual business model. The study suggests that a quest for creative freedom is the primary elicitor during the development of the business model. The creative response is identified as the main process in implementing business model changes.

Sabatier, Mangematin and Rousselle (2010) expanded on the relation between the business model theory and a recipe to examine the theory of a business model portfolio. They view relations as a brief means to articulate critical theories and suggest standards of arranging novel means to generate money in already existing activities. Using four different business model portfolios of biopharmaceutical companies, they investigated the respective business model portfolio of the biopharmaceutical companies. The study suggests that a firm's business model portfolio can assist in stabilising interdependency with other firms and can also describe and fund its activities in the medium term to ensure a mode of behaviour so that its future health is protected.

Smith, Binns and Tushman (2010) investigated the dependency of competitive advantage on the success of managing paradoxical strategies and complex business models. By investigating intricate, complex, business models, the study suggests that the successful management of business models depends on leadership that is able to make vital decisions, assemble dedication to both overlapping visions and programme specific goals, acquire knowledge actively at multiple levels, and to engage dispute.

3.5.5 Disruptive Business Model Innovation

At this point, the business model concept and the concept of business model innovation has been discussed. In this section, the connection between disruptive innovation and business model innovation will be made.

When viewing the definition of disruptive innovation exclusively provided by Christensen et al. (2004), disruptive innovation was defined earlier as an innovation that either creates new markets or offers convenience or lower prices to customers in an existing market. So, according to the definition, for an innovation to be disruptive, the innovation needs to create new markets, offer convenience, or lower prices to customers in an existing market. What is not mentioned in the definition is what is actually meant by the term 'an innovation'. When viewing the definition, the term 'an innovation' could be a technological innovation, product innovation, service innovation or even a business model innovation as long it enables the creation of new markets, offers convenience or lower prices to customers in an existing market. According to the definition of business model innovation provided by the study, the aim of the business model is to capture value and changes to the model in order to capture that value.

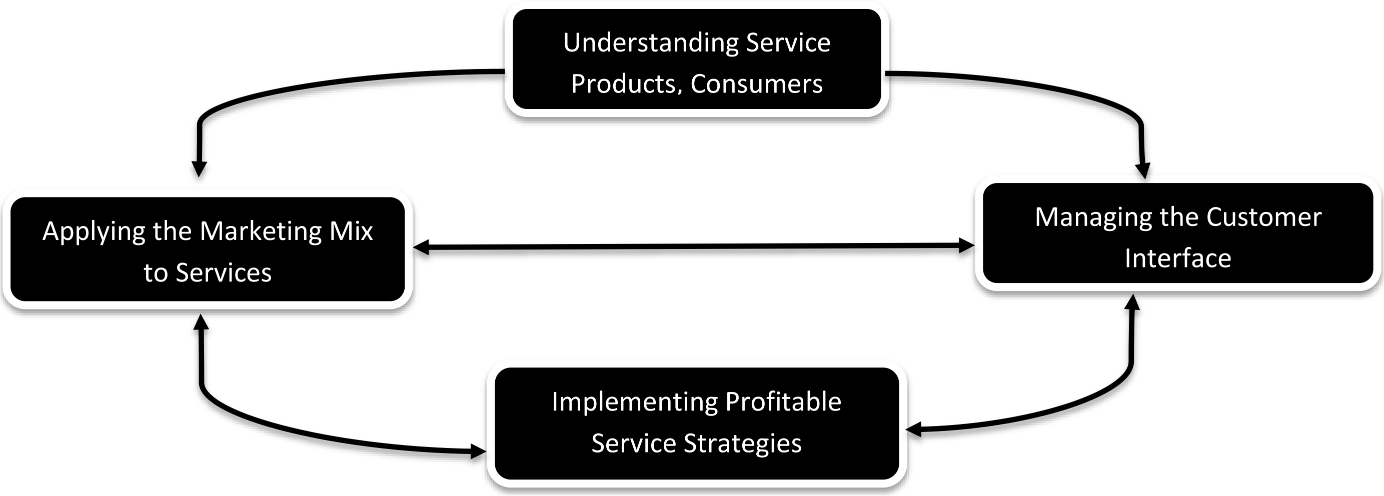
If one had to connect the two concepts to create the new concept of a disruptive business model innovation, the definition of a disruptive business model innovation would be defined as the creation of a new business rationale or changes to the existing rationale on how the business should be operated in order to capture the value of the innovations which are either in products or services and to create new markets or offer convenience or lower prices to customers in an existing market.

3.6 Business Model Innovation in the Services Industry

3.6.1 Service theory

Lovelock and Wirtz (2011) organise service marketing into four main components. These components are service products, consumers, and markets, applying the marketing mix to services, managing the customer interface, and implementing profitable services strategies. An illustration of the components is displayed below. The framework is discussed in detail and is compared to low-cost airline context. A graphical illustration of the Lovelock and Wirtz (2011) model is provided in figure 6.

Figure 5: Framework for Services Marketing



Source: Lovelock & Wirtz (2011)

3.6.1.1 Understanding Service Products, Consumers, and Markets

This section will be divided into three sections. These sections are defining services, services and consumer behaviour and, services in a competitive market.

Defining Services

As mentioned in the introduction, the services industry was chosen because disruptive business innovation may pose a unique challenge as opposed to a disruptive business model innovation in products. Just as the other concepts previously discussed, a variety of definitions for services exist. In fact, some authors affirm that there should be no differentiation between products and services (Stauss, 2005). Besides that affirmation, there were in-house debates on the definition of services. A consensus was reached and it was broadly defined as ‘acts, deeds, performances, or efforts’ and possessed unique attributes, as opposed to physical products, such as intangibility, perishability, heterogeneity, inseparability of consumption and production (Lovelock & Wirtz, 2011; Solomon, et al., 1985; Kotler, 1977).

Lovelock and Wirtz (2011) definition of services is stated as follows; “Services are economic activities offered by one party to another. Often time-based, performances bring about desired results to recipients, objects, or other assets for which purchases have responsibility. In exchange for money, time, and effort, service customers expect value from access to goods, labour, professional skill, facilities, networks, and systems; but they do not normally take ownership of any of the physical elements involved.”

Services and Consumer Behavior

According to Lovelock and Wirtz (2011), it is important for firms to understand the decisions made by customers when purchasing and utilising a service and their post-service satisfaction. This needs to be understood in order to satisfy customers. They proposed a model that divides the service consumption process into three stages. The stages include the pre-purchase stage, the service encounter stage and, and the post-encounter stage. The three stages will now be explained in detail.

The pre-purchase stage consists of four steps. These steps are stated as follows: awareness of the need, search for information, the evaluation of alternative solutions and suppliers, and the making of a purchase decision. During the pre-purchase, there are four theories that explain the behaviour of a consumer in this stage. The theories are service attributes, perceived risk, service expectations and purchase decision. Service attributes refer to the difficulty in evaluating the services due to the high proportion of experience and credence attributes in service products.

Perceived risks refer to the risk perceived by consumers when purchasing a product due to the difficulty of evaluating service. To reduce this perceived risks, firms adopt risk reduction strategies such as guarantees and free trials. Service expectations refer to the results of information search and evaluation. The consumer would prefer service levels that are either desired, adequate or predicted. The zone of tolerance is between desired and adequate service levels. Within the service tolerance zone lies the variation in service levels that the customer is willing to accept. Purchase decision refers to the outcome of the pre-purchase stage. The decision to purchase depends mostly on the expected attribute performance and risk perceptions of alternative solutions. The decisions usually involve comparisons of attributes such as price and others. With regards to consumers utilising low-cost travel, consumers will usually use price and travel time as the main discriminant between alternatives during the pre-purchase stage. Ultimately, the consumer will most likely choose the cheapest fare.

In the service encounter stage, the customer engages in the consumption of the product. There are six theories that explain customer behaviour in this stage. These are the moment of truth, the distinction between high and low contact services, the servuction model, and the theatre model used in service delivery. The moment of truth refers to customer touch points that can either improve or inhibit the relationship between the firm and the customer. The distinction between high and low contact services refers to the points of contacts available to the consumer. High contact services are more challenging than low contact services largely due to the high amount of contact points found in high contact services. The servuction model comprises of a technical core and service delivery system. The technical core refers to the activities that the consumer does not see. The activities not seen by the consumer are important because they affect the activities that are seen by the consumer. The service delivery system comprises of the activities that are visible to the consumer. Activities include interaction with employees, service environment and other consumers. The activities experienced by the customer in the service delivery system have the potential to create a satisfactory or unsatisfactory service experience. The theatre model refers to likening the service delivery system to a play with actors, props and scripts. The actors have different roles that they need to understand and scripts to follow so that their part is executed effectively. The use of the theatre model can be exploited by firms to better manage the service environment and create a satisfactory service experience for consumers. The theatre model is used in the airline industry. The main areas where the theatre model is utilised include at the departure airport where the customer drops off their luggage, in the aircraft, and the arrival airport where the customer will fetch his\her luggage.

In the post encounter stage, the consumer compares the actual service performance to the service expectations perceived by the customer. Customer satisfaction can be scaled from very high satisfaction to deep satisfaction. When service levels lie within the zone of tolerance, consumers will be reasonably satisfied and the satisfaction of consumers will increase as the service levels increase. Maintaining high service levels will increase the likelihood of repeat purchases, increase loyalty and improve brand equity.

Positioning of Services

Concerning positioning services, a positioning strategy needs to be adopted in order develop long-term relationships with consumers. The positioning of a service involves product and price attributes, customer service processes, distribution the service, service schedules and locations, service environment, and service personnel.

There are three focused strategies that can be adopted by a firm in a competitive environment to achieve a competitive advantage. These strategies are fully focused, market focused, and service focused. Fully focused refers to a firm providing a limited scope of services to a small segment. Market focused refers to a firm offering a wide scope of service to a small market segment. Service focused refers to a firm offering a narrow scope of services to a broad market base. In all three strategies, market segmentation forms the foundation. Market segmentation involves identifying and selecting target segments that are suitable for their product.

When it comes to positioning in a completive environment, it is imperative that the difference between important and determent attributes are understood. Important attributes refer to attributes that are important to the customer but are not important when it comes to buying decisions. Determinant attributes refer to attributes that are seen to have significant differences between alternatives for customers. Examples of determinant attributes include frequency of flights, the level of service onboard and departure times. The determinant attributes are used by management to offer different service levels to customers for each determinant attribute. Furthermore, the service levels are used by management to segment customers according to the price levels that consumers are willing to pay for a superior service. An example of this from the airline perspective is the instance of consumers purchasing a business class ticket as opposed to an economy class ticket. Business class passengers experience a higher level of service compared to economy class passengers. Furthermore, business class tickets are priced significantly higher than economy class tickets.

For effective positioning to be achieved, firms are required to conduct a competitor analysis and an internal corporate analysis and both analyses have to be linked. Subsequent to the linking of the analyses, a position statement is formed that explains the desired position of the firms offering in the marketplace.

3.6.1.2 Applying the Marketing Mix to Services

This section will discuss the following establishing services products, the distribution of services, pricing and revenue management, and the promotion of services and education of customers.

Developing Service Products

A service product comprises of three components. These are the core product, supplementary services, and delivery processes. The core product meets the primary needs of the customer and provides primary benefits. Supplementary services serve as product enhancements. Delivery processes refer the delivery of the core and service elements to the customer. Because of the competitiveness of some service industries, the core product becomes commoditised. Therefore, managers need to differentiate their products by means of supplementary services and service delivery processes. In the airline context, airlines will differentiate themselves through supplementary services by means of in-flight entertainment, Wi-Fi access onboard and partnerships with third parties that enable passengers to have an enhanced service experience such as using currency from another loyalty programme to purchase flight tickets.

Facilitating supplementary services are required for service delivery or assistance in the utilisation of the core product. Supplementary service includes information, order-taking, billing, and payment. The enhancement of supplementary services create benefits for the consumer and activities that enhance supplementary services include, consultation, hospitality, safekeeping, and dealing with exceptions. If any of the supplementary services contains a weakness, it will result in the overall impression being spoiled.

Branding can be used by managers to improve the tangibility of the service offering and value proposition especially in service firms that offer a line of products. Branding strategies that improve the tangibility of the service offering include a branded house, sub-brands, endorsed brands, and house of brands. The branded house strategy involves applying a single brand to a number of unrelated services. Sub-brands involve using a master brand together with a specific service brand. Endorsed brands are dominated by the product brand but the corporate features less significantly than the product brand. House of brands involves individual service brands without the endorsement of the corporate brand.

Concerning the improvement and development of new services, there are seven levels in the hierarchy of new service development. These seven levels are stated as follows: style changes, service improvements, supplementary service innovations, process line extensions, product line extensions, major process innovations, and major service innovations. Style changes refer to changes that are visual but do not include changes in performance or processes. Service improvements involve moderate changes in the performance of current products. Supplementary service innovations involve significant improvements or new additions of facilitating or enhancing service products. Process line extensions involve new ways of delivering service products. Product line extensions involve the addition of new services that the deliver the same service but to meet a different need. Major process innovations involve using new processes to deliver existing service products. Major service innovations involve the development of new core products.

The Distribution of Services

The foundation of any service distribution strategy is formed by asking four questions. The questions are stated as follows: What is distributed? , How can services be distributed? , Where should service be delivered? , and when should a service be delivered?

With regards to what should be distributed, the flow model of distribution includes the following flows of service distribution: information and promotion flows, negotiation flow and product flow.

With regards to how service can be distributed, there are three main modes available to the manager. These include consumers visiting the service site, Service providers go to their customers, and service transactions conducted remotely.

With regards to where and when a service should be delivered, the time and place should meet customer expectations. Primarily, customer convenience and operational requirements are necessary to consider.

Pricing and Revenue Management

Pricing assists a service firm in achieving financial success. The objective of developing prices will vary from one firm to another. Objectives include: generating profits, covering costs, build demand, and developing a user base. Once a pricing objective is chosen, then a pricing strategy should be adopted.

The foundations of pricing are formed by three components. These components include the costs that a firm needs to cover so that a floor price can be set, the customer's perceived value so that the ceiling price can be set, and the prices of competitors so that the final price can be set. The final price should be in the range of the price floor and ceiling.

Costing services is a task that is complex. Services usually have high fixed costs, varying capacity utilisation, and large shared infrastructure that makes it very challenging to set a unit cost. Cost accounting and activity-based accounting are utilised to establish unit costs in service firms.

With regards to net value, it is the sum of all perceived benefits minus perceived costs. If the net value is positive, then customers will purchase the service. Since the perceived benefits and costs are subjective, firms can increase perceived benefits through education and communication. Furthermore, the costs perceived by the consumer are not monetary exclusively. Other costs include time, physical costs, psychological costs, and sensory costs.

Wirth regards to competition, pricing has to be observed closely and compared to competitors especially when there is little differentiation between competitors. However, because of the nature of services being time and location specific, firms tend to have their own monetary and non-monetary costs and the final price becomes secondary.

Revenue management is used to increase revenue for a service firm through better utilisation of capacity. Typically, capacity is reserved for higher paying segments. Other strategies of revenue management include different pricing for different segments and pricing according to predicted demands. These strategies work well in service environments where there are high fixed costs and perishable inventory, several customer segments with different price elasticities, and variable demand. In the airline industry, revenue management is used to organise the inventory for specific demand periods.

Managers should be aware that the complexity of their pricing models can drive consumers away. If customers see that there are numerous hidden fees, then that could let to consumers thinking that services firms are unethical. Managers should be more transparent in their revealing of prices.

Promotion of Services and Education of Customers

Services marketing has numerous roles. The roles include differentiation and positioning of the service, assisting consumers in evaluating service offerings, promoting the contribution provided by service personnel, creating additional value by means of communication content, oversee customer involvement in production, and arouse or suppress demand in order to match capacity.

There are communication challenges present given the intangibility of services. However, there are two ways to overcome these challenges. Firstly, to emphasise tangible cues and using metaphors to communicate the value proposition.

There exists a variety of communications channels. These are traditional marketing channels, the internet, service delivery channels, and messages originating from outside the organisation.

3.6.1.3 Management of the Customer Interface

In this section, the following topics will be discussed: design and management of service processes, achieving the balance between demand and productive capacity, concocting of the service environment, achieving service advantage through managing people.

Design and Management of Service Processes

The service process contains many phases. To assist in understanding the service process, service firms adopt the use of flow charts. Flowcharts assist in visualising the service process and the customer experience.

The use of blueprints provides a more detailed flowchart. The details include the front stage activities, backstage activities, the necessary supplies for the front and back stage, the necessary information for each step of the service process, and the service standards for each activity in the service process. Furthermore, the blueprint should contain fail points and fail methods.

Due to changes in technology, customer needs and service offerings, the customer service process needs to be adjusted at periodic events. The objective of the redesign process is to increase customer satisfaction, improve productivity, decrease the number of service failure, and decrease cycle times.

With regards to process redesign, there are five types of service redesign methods available to service firm managers. These are the removal of non-value adding steps, the movement to self-service, delivering a service directly at the consumer’s location, bundling services, and the redesign of the service environment and equipment.

Consumers participate in the service process as co-producers and their participation contributes to the success of the service being delivered. Therefore it is imperative that service firms educate their customers on how their participation can contribute to the success of the service being successful.

The use of self-service by means of SST’s is the most prevalent form customer involvement. The SST’s needed to be reliable and should be a better alternative to traditional delivery methods. If any of these requirements are not met, customers are more likely to reject SSTs. The shift to self-service requires more customer participation and a change in customer behaviour. However, there are some customers who may be reluctant to adopt self-service platforms. To assist those customers who are reluctant to change, there are six steps to guide service firms. The steps are states as follows: establishing trust between the service firm and the customer, understand habits and expectations of customers, pretesting new procedures and equipment, publicising benefits of the change, teaching customers on how to use the new equipment, and monitoring performances and seeking new improvements. In the commercial airline industry, the use of SST’s is encouraged at the airport and personnel are there to assist customers and educate customers.

Balancing Demand and Productive Capacity

There are several forms of productive capacity in services. These are physical facilities for processing customers, physical facilities for processing goods, physical equipment for processing people, possessions or information and labour and infrastructure.

A firm with limited capacity can face numerous demand-supply situations. When the capacity and demand are not balanced, firms will have unutilised capacity during low demand periods and fully utilised capacity during high demands periods which leads to turning customers away. Therefore firms need to adjust capacity so that demand-supply is balanced.

Firms need to manage demand effectively and they can do so by understanding demand patterns and drivers by market segment. Then marketing strategies should be developed to reshape the patterns.

Substantial information is required to design effective strategies for the management of demand and capacity. Information required includes historical data, forecasts, segment-by-segment data, cost data, location or branch-specific variations in demand, and customer attitudes toward waiting and different utilisation levels. In the airline context, the management of inventory is done to capture demand effectively. The use of historical data provides information to inventory managers on how the inventory should be adjusted to match the demand.

Creating the Service Environment

Service environments fulfil four fundamental components. These include Shaping the experiences and behaviour of the customer, determining the image and positioning of the service firm, and oversee the service encounter and increase productivity.

Environmental psychology forms the foundation for understanding the effects of service environments on customer service. There are two models that explain environmental psychology. These are the Mehrabian-Russel Stimulus-Response model and Russels' Model of Affect. The former holds the view that the service environment influences the consumers' affective state which then drives behaviour. The latter holds the view that pleasure and arousal, together determine whether consumers spend time or approach an environment as opposed to avoiding it. The servicescape model supplements on the two models by providing an integrative framework that discusses how consumers and service staff respond to key environmental dimensions. The servicescape model highlights three key aspects of the service environment. The aspects are stated as follows: ambient conditions, spatial layout and functionality, signs, symbols, and artefacts. Ambient conditions refer those attributes of the environment that relate to our five senses. Effective spatial layout and functionally enable service operation and enhance user-friendliness. Signs, symbols, and artefacts assist consumers in extracting meaning from the environment and guiding them through the service process. The appearance and behaviour of employees reinforce the positioning of the service firm.

The Management of People for Service Advantage

Service employees play vital roles in the service. The roles that they play are stated as follows: they are a source of competitive positioning, generating sales, cross-sales, and up-sales, drive productivity of frontline operations and provide a source for customer loyalty.

The job function of frontline employees in a service firm is challenging and stressful because they involve conflicts, emotional labour and emotional stress. To empower employees, firms need to conduct training on the culture of the organisation, strategy and purpose, interpersonal and technical skill and product and service knowledge. Adequate training will result in employees responding with flexibility to customers' needs.

3.6.1.4 Profitable Service Strategy Implementation

Building Relationships and Loyalty

Loyalty from customers is a crucial driver of profitability. The sources of profitability include increased purchases, lessened operation costs, higher referrals, and price premiums. However, it is not always the case that loyal customers are profitable because the loyal customers expect to receive discounts as a result of their loyalty. In order for service firms to truly understand the true impact that loyalty has on their profits, firms should calculate LTV. Their LTV calculations should include costs of acquisition, revenue streams, account-specific servicing costs, customer churn rate, and the discount rate for future cash flows.

The loyalty of customers is dependent on the benefits available to them. The benefits include confidence benefits, social benefits and special treatment benefits. Confidence benefits include decreased risk of a service failure and the ability of the customer to trust the service provider. Social benefits include being known by name by the service provider. Special treatment includes more favourable prices for the customer, extra services and higher priority.

Building customer loyalty presents challenges and the Wheel of Loyalty provides a framework for service managers to build relationships. The framework contains three components that occur sequentially. Firstly, a foundation for loyalty needs to be built by the firm. Confidence benefits are received by the loyal customers from the foundation for loyalty. Secondly, loyalty bonds are created once the foundation has been laid. The creation of loyalty bonds is done to strengthen the relationship between the service firm and the customer. Lastly, firms need to improve on reducing customer churn besides focusing on loyalty. Firms need to perform the following actions in order to create a foundation for loyalty: target the correct customers and segment accordingly, utilise service tiering in the customer base, understand that customer satisfaction serves as part of the foundation for customer loyalty, utilising cross-selling and bundling to deepen relationships, and creating value by offering financial rewards and non-financial rewards. Understanding the reasons of customers leaving is the final step in the Wheel of Loyalty. In order for firms to reduce customer churn, the need to be effective in the handling of complaints and service recovery.

The use of customer relationship managements systems enables the Wheel of loyalty. They are useful when a firm has a large amount of customers across many service delivery channels.

Complaint Handling and Service Recovery

There are several alternatives for customers when they are dissatisfied. The alternatives include public action, private action, or no action. Firms need to understand customer complaining behaviour, motivations and response expectations to effectively deal with service failures. The avoidance of customer switching and the restoration of confidence in the firm by customers is a result of effective service recovery. Service firms can use customer complaints as an opportunity to retain customers.

In order for service recovery to be effective, firms need to perform the following actions: encourage customers to provide feedback and ensure that the feedback process is easy for customers to execute, and to establish appropriate compensation levels.

Service Quality and Productivity Improvement

With regards to creating value for customers, quality and productivity are two essential aspects. Quality entails the benefits that are created for customers while productivity entails the financial costs to the firm. Productivity entails the financial valuation of outputs relative to inputs

Service quality is defined as consistently meeting or exceeding customer expectations. Service quality perceived by customers consists of five aspects. These aspects are stated as follows: tangibles, reliability, responsiveness, assurance and empathy. In addressing and service quality problems, the gaps model can be utilised. The gaps model identifies six potential gaps in identifying and identifying service quality problems. The gaps are stated as follows: the knowledge gap, the policy gap, the delivery gap, the communications gap, the perceptions gap, the service quality gap.

There are soft measures and hard measures of service quality. Soft measure is founded on perceptions and feedback from customers and employees. Hard measures, on the other hand, entail operational processes and outcomes and can be quantified, measured and observed.

From a financial perspective, service quality improvements can impact the firm’s financial position. A return on quality approach measures the financial impact that service quality improvements have on the firm.

With regards to productivity, there are two main concepts that need to be known. These concepts are stated as follows: effectiveness and efficiency. Efficiency refers to the speed at which processes are completed while effectiveness refers to the objectives set by the firm and whether if they have been met or not. Firms need to be more efficient and effective in service delivery in order for their customers to be satisfied. When improving effectiveness and efficiency, firms need to understand that this could impact the front and backstage activities.

Service Leadership

For a firm to achieve service leadership in a particular industry, there key areas that require high performance. The key areas are stated as follows: efficient management of customer relationships, value must be created and delivered to the customer so that the value can be perceived by the customer as superior to competitors, continuous improvement of service quality and productivity, and enablement and motivation of service employees. For success to be achieved, marketing, operations and human resources functions need to integrate correctly.

There are four levels of service performance and they are stated as follows, service losers, service nonentities, service professional, and service leaders. Service losers perform poorly in marketing, operations and human resources management and survive mainly because of monopoly. Service nonentities eliminate the worst aspects of service losers but their service performance is not adequate. Service professionals have a clear market position and customers in target segments seek them out based on their sustained reputation. Service leaders are the best performers in their industry.

Human leadership is required for the development and implementation of the strategy. Leadership is different from management. Leadership is a growing part of managerial work. Leaders in all service organisations should have the following characteristics: a passion for the business, an understanding that service quality is a key foundation for success, belief and recognition of the frontline, a set values to be passed on to the organisation, effective communication skills, ability to ask good questions and get answers from the team, reset company goals when needed while having an understanding the purpose of its existence, and the ability to act out the behaviours that they expect from others.

3.7 Service business model innovation

In this section, service business model innovation will be discussed with special reference to a specific study on how the unique attributes of services and the characteristics of the service industry affect innovation. Furthermore, a study on disruptive innovation in service industries will be provided. As a reminder, the unique characteristics of services are intangibility, perishability, heterogeneity, the inseparability of consumption and production. The characteristics of the service industry are high fixed costs, fixed capacity, volatile demand, and customers with different price sensitivities.

With reference to how the unique characteristics of services affect innovation, Aranda and Molinda-Fernández (2002) argued that due to the unique characteristics of services, the implementation of innovation models from manufacturing firms could not be applied to service firms. Concerning innovation in service firms, specific departments for the management of research and development were created. In addition, service firms have a high degree of contact with the customer, therefore, the customer had to be involved in the innovation process. Furthermore, styles in implementing process and organisational innovations were similar when comparing service firms to manufacturing firms but it differed when comparing the styles of technological innovation.

A study conducted by Madjdi and Hüsig (2011) aimed to examine the manner in which three German-based incumbent mobile network operation firms handled the emergence of the wireless local area network using the theory of disruptive technology as a framework. The points of focus within the examination were forecasting, framing, response and the interpretation of this disruptive innovation. Findings showed that a significant difference existed in three key areas when considering the firms in question. The findings included perceptions concerning the disruptive technology, the strategic development process in which each firm attempts to understand the impact of the disruptive technology and the implementation of a suitable response strategy. What was also discovered was the fact that even if at least one of the mobile network companies forecasted incorrectly, it would still lead to better decisions being made as compared to non-forecasting.

Droege and Johnson (2010) constructed a case of differentiation and cost compression on AirTran Airways. The case was based on interviews with top management, secondary sources, and media reports, which are qualitative in nature. The data was then analysed from the perspective of human resources and strategy. From the perspective of strategy, AirTran's service possesses features that come with a price premium that has been met with reluctance from customers and from a human resources perspective. AirTran attempts to increase its labour productivity by combining flexibility and control. The airline managed to maintain a competitive advantage but it will face challenges in maintaining success due to the structure of the industry.

3.8 Summary

In this literature review, the theory of innovation was discussed in detail. The discussion provided literature on the definition of innovation, the typology of innovation and categories of innovation based on the degrees of impact. The discussion on the business model included literature on the concept itself, business model innovation, and business model innovation in the services industry.

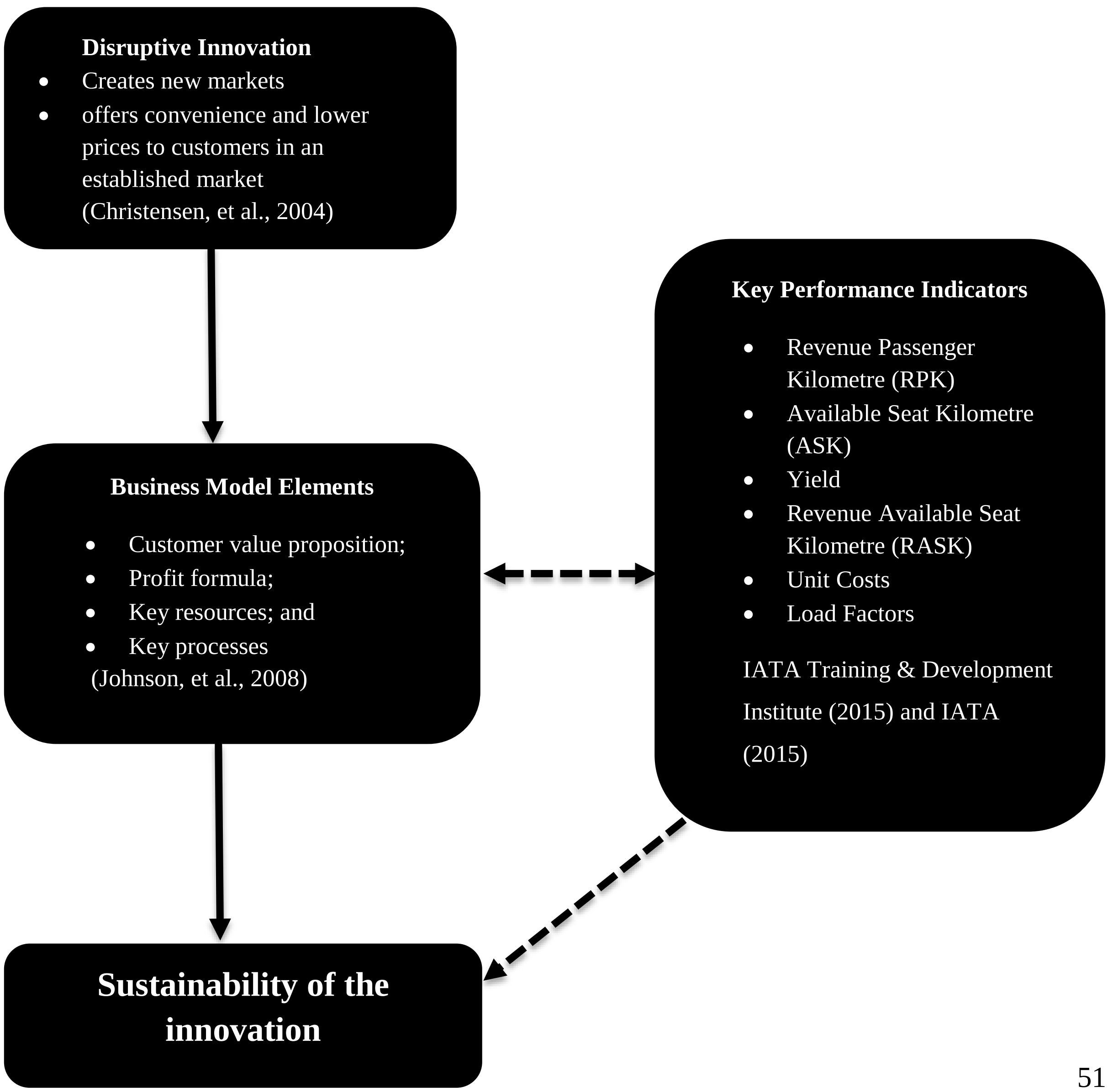
CHAPTER 4: THEORETICAL FRAMEWORK

4.1 Introduction

This chapter discusses the theoretical framework that was adopted by the researcher. The model is presented graphically (in Figure 7) and discussed. The chapter is concluded with a summary.

4.2 Theoretical Model

Figure 6: Theoretical Model



Source: Developed by researcher (2016)

Structure

The above framework assumes that business model components such as customer value proposition, profit formula, key resources, and key processes contribute to the sustainability of a low-cost airline.

The above theoretical model illustrates the research question and objectives in a graphical format. As a reminder, the research question is stated as, “In the context of disruptive innovation in an emerging country, what business model components contribute to the sustainability of a disruptive innovation, such as a low-cost airline?” Furthermore, the purpose of the study is to investigate key factors that enable or inhibit a disruptive innovation, such as a low-cost airline, in an emerging market like South Africa, and propose a conceptual model for sustainability within the context of disruptive innovations, such as a low-cost airline, in a developing country setting.

Purpose of the theoretical framework

The purpose of this theoretical framework is to provide a foundation in interpreting and verifying the primary data (Anfara & Metz, 2006). The researcher adopted this role for the theoretical framework due to the research design of this study which is a qualitative approach. The research design is discussed in detail in the following chapter. Since this study aims to discover the business model elements that contribute to the sustainability of a low-cost airline, the role of the theoretical model would have to be one where the researcher utilises it as a guide in interpreting and verifying the data as opposed to the theoretical model being tested against the collected data empirically.

Disruptive Innovation, Business Model Elements, Airline Key Performance indicators and Airline Sustainability

In the literature review, disruption innovation was described as an innovation that enables the creation of a new market and offers convenience and lower prices to customers in an established market (Christensen, et al., 2004). It was also established that a low-cost airline falls under this category of innovation. Also from the literature review, a variety of definitions of the business model were provided and discussed. However, the researcher adopted the definitions that included business components due to the purpose of the research which is to investigate key factors that enable or inhibit a disruptive innovation, such as a low-cost airline, in an emerging market like South Africa, and propose a conceptual model for sustainability within the context of disruptive innovations, such as a low-cost airline, in a developing country setting (Johnson, et al., 2008). The definition provided by Johnson, et al (2008) stated that the business model has four key components (customer value proposition, profit formula, key resources, and key processes) and, when these components are combined, they deliver value. With reference to the model, the theory supporting the business model elements will serve as a foundation in interpreting and verifying the data (Anfara & Metz, 2006). With regards to the case studies in the second chapter, sustainability refers to the ability of an airline in being able to continue its operations while using the key performance indicators of airlines as means to measure performance. Furthermore, the business model elements are measured by the key performance indicators and provide some indication to airline sustainability. In this case, the key performance indicators of an airline were used. (IATA, 2015; International Air Transport Association Training & Development Institute, 2015).

4.3 Summary

This chapter discussed the theoretical model adopted by the researcher for this study. The model assumes that the business model elements provided by Johnson, et al (2008) contribute to the sustainability of an airline while the key performance indicators of an airline provide an indication of sustainability. Furthermore, it was mentioned that the role of the theoretical framework is to guide the researcher in interpreting the data while using the business model definition provided by Johnson, et al (2008) as a basis.

CHAPTER 5: RESEARCH FRAMEWORK AND METHODOLOGY

5.1 Introduction

This chapter discusses the research framework and methodology adopted by the researcher. The chapter will begin with a discussion of the research philosophy. The research philosophy will be followed by a discussion of the research design. In the research design section, the topics of the sampling technique, data collection, and data analysis are discussed. A conclusion will follow to end the chapter.

5.2 Research Philosophy

Bandaranayake (2012) defines research philosophy as a comprehensive term relating to the development of knowledge and the nature of that knowledge. There are three main paradigms when it comes to research philosophy, namely: ontology, epistemology, and methodology. Ontology refers to the researcher's perception of reality, epistemology refers to the typology of knowledge to be accepted and its relationship to the viewer and methodology refers to the manner in which data should be collected, also taking ethics into account. Based on these three pillars, four main types can be derived. These are positivism, realism, interpretivism and pragmatism. Each research philosophy has varying assumptions on the three pillars that will now be discussed.

Concerning ontology, positivism views reality as external, objective and independent of social factors. Realism shares the same view as positivism. However, the objective reality is interpreted through human conditioning. Interpretivism views reality as a convention of society and the reality can change. Lastly, pragmatism views reality according to the study in question and the views at the disposal of positivism and interpretivism (Urquhart, 2013; Bandaranayake, 2012).

In the case of epistemology, positivism assumes that only observable phenomena can provide credible data. Concerning realism, observable data is credible. However, misinterpretations on sensations can be caused by insufficient data. Interpretivism accepts subjective meanings and social phenomena. Pragmatism either accepts the data accepted by positivism or interpretivism but it is dependent on the research question (Urquhart, 2013; Bandaranayake, 2012).

Concerning methodology, positivism takes the stance that the researcher is independent of the data so the stance is value-free. From the view of realism, the conditioning of the researcher will affect the research. Concerning interpretivism, the view held is the direct opposite of positivism and pragmatism holds the view that both the subjective and objective view should be considered (Urquhart, 2013; Bandaranayake, 2012).

In this study, the interpretivist approach was adopted as the main research philosophy addressing the research question. The reason for this choice has to do with the fact that the study is aimed at providing insight and understanding with a design based on small samples (Malhotra and Birks, 2007).

5.3 Research Design

The research design is defined as a framework or blueprint for conducting the research. It stipulates the specifics of the procedures necessary for acquiring the required information needed to structure or solve the research problem. Furthermore, the research design involves the following actions or components. These include defining the required information, adopting either an exploratory, descriptive or casual overall research design, structuring the sequence of techniques of understanding and/or measurement, formulate and pre-test an adequate form for data collection or questionnaire design, define the qualitative and/or quantitative sampling process and sample size, and establishing a plan of qualitative and/or quantitative data analysis (Maholtra & Birks, 2007). The mentioned tasks and components will now be discussed in detail.

5.3.1 Overall Research Design

Typically, there are three classifications of research designs available to the researcher. These are exploratory, descriptive and causal research design. The exploratory research design is defined as an adjustable and evolving approach to understanding marketing phenomena. Descriptive research is defined as a research approach focused mainly on the description of marketing phenomena. Causal research is a research approach mainly focused on obtaining evidence regarding cause-and-effect relationships. Concerning the research design classification, the researcher utilised exploratory research. The researcher adopted this classification based on, firstly, the fact that the researcher aimed to provide insights into and understanding of marketing phenomena and, secondly, the researcher aimed to define the problem areas fully and formulate hypotheses for further investigation and/or quantification

(Maholtra & Birks, 2007). The defining of the problem areas and the formulation of the hypotheses are discussed in chapter 7.

With the research design, classification in mind, there are two approaches to consider concerning explorative research. These are qualitative exploration and quantitative exploration. Qualitative research is defined as an unstructured, primarily exploratory design based on small samples. Quantitative research is defined as a research technique that aims to quantify data and apply some form of statistical analysis (Maholtra & Birks, 2007). The researcher utilised qualitative exploration to answer the research question. Malhotra and Furthermore, this research design is leveraged on grounded theory. This is not to say that the researcher adopted the grounded theory approach as the overall research design but rather that grounded theory was used as a coding technique. In other words, the researcher adopted grounded theory as a means to analyse the data exclusively. (Urquhart, 2013).

5.3.2 Sampling technique

The sampling techniques available to the researcher are non-probability sampling and probability sampling. Non-probability sampling relies on the personal judgement of the researcher as opposed to selecting a sample based on probabilistic chance which is the main trait of probabilistic sampling. (Maholtra & Birks, 2007). The researcher adopted nonprobability sampling method because the researcher intended to use his personal judgement in selecting the sample. There are four non-probabilistic sampling methods available to the researcher. These are convenience sampling, judgmental sampling, quota sampling and snowball sampling. Convenience sampling involves acquiring a sample of convenient elements and the selection is left primarily to the researcher. Judgemental sampling is a form of convenience sampling in which the population elements are purposely selected based on the judgement of the researcher. Quota sampling is a two staged confined form of judgmental sampling. The first stage involves establishing control categories of population elements. In the second stage, sample elements are selected based on convenience or judgement. Snowball sampling involves selecting an initial sample randomly. The following respondents are selected based on referrals. (Maholtra & Birks, 2007). The researcher adopted the judgmental sampling approach mainly because the sample required for this particular study involved specific individuals with extensive knowledge on low-cost airlines. Based on the researcher's judgement, the respondents were senior-level managers of either low-cost airlines (such as Mango, Kulula, Skywise or FlySafair) or full-service airlines (such as SAA and Comair) who have an in-depth knowledge of the low-cost commercial airline industry and experts at airline consulting companies. Ideally, the respondents should be working in areas that deal with strategy and innovation who have had at least five years' experience in the industry. The reason these groups were chosen was mainly due to the researcher's intention to obtain relevant information from the respondents so that the research question can be answered adequately.

5.3.3 Data Collection

In this study, the researcher used in-depth interviews as a source of primary data. The interviews were either tape or video recorded (subject to the consent of the respondent) and then transcribed. The method of data collection adopted by the researcher is considered a qualitative method for data collection. In-depth interviews are defined as "an unstructured, direct, personal interview in which a single participant is probed by an experienced interviewer to uncover underlying motivations, beliefs, attitudes, and feelings on a topic" (Maholtra & Birks, 2007). The reason behind the use of in-depth interviews was that the researcher wanted to derive meaning from the interpretation brought forward by the respondent. The interview mainly covered topics such as low-cost airlines, the business model of airlines and the aviation industry in general. The full interview structure is found in Appendix C. On the completion of an interview, the researcher conducted a preliminary or a full analysis of the interview. The preliminary analysis allowed the researcher to prepare informed questions for the following interview. The data collected from the interviews were subject to analysis.

Concerning sources of secondary data, these included accredited journals, media reports, case studies and financial statements of low-cost airlines. These data items were also subject to analysis.

5.3.4 Data Analysis

The researcher adopted a four-step process in analysing the data. The process involved data assembly, data reduction, data display, and data verification.

Step 1: Data assembly

Step 1 involves gathering data from a variety of sources. With reference to this study, data sources such as interview notes, recordings and secondary data were utilised by the researcher.

Step 2: Data reduction

Step 2 involved the researcher organising and structuring the data. In this study, the researcher adopted data coding as a means of data reduction. Data coding is conducted in order to conceptualise the data and fit it into suitable categories. Since the researcher adopted the grounded theory method as means to analyse the data, only two types of coding procedures were available. These procedures are known as the Glaserian and Straussian coding methods. Glaserian coding involves open coding, selective coding and theoretical coding. Straussian coding involves open coding, axial coding and selective coding (Urquhart, 2013). These procedures will now be discussed.

In the Glaserian coding procedure, which was the procedure adopted in this study, open coding is conducted to assign codes to pieces of data line by line or word by word. In the selective coding phase, the open codes are organised into selective codes, which will eventually contribute to the core categories of the theory and the theoretical coding procedure; the codes are related to each other. In the Strausian procedure, open coding is the process whereby the researcher narrates all the data line by line until a complete arrangement of categories has been achieved. Once that is completed, axial coding can be conducted. Axial coding involves making connections between the categories derived in the open coding process. Once the connections have been made, a selective coding process is conducted. This involves pointing out all the categories that relate them to the core category (Haig, 2013; Urquhart, 2013; Spiggle, 1994).

Step 3: Data display

Step 3 involved the researcher summarising and presenting the structure that is seen in collected qualitative data and allowed the researcher to draw conclusions. According to Malhotra and Birks (2007), the data can be presented in the form of a spreadsheet, qualitative cross-tabulation or flow charts. In this study, the researcher adopted the use of flow charts for data display mainly because the researcher desired to present the data in the best way possible.

5.3.5 Data verification

Concerning the definition of data verification, this is a process whereby a researcher seeks alternative explanations of a particular phenomenon through the use of other data sources (Maholtra & Birks, 2007).

This study adopted two forms of data verification. These are triangulation and participant validation. Triangulation involves comparing different kinds of data and different data collection methods in order to identify any concords and differences among the data. Participant validation involves taking the researcher's findings back to the participants in order to be verified by them (Maholtra & Birks, 2007).

The researcher utilised triangulation by analysing both the secondary and primary sources of data using data coding. This method allowed the researcher to compare the concords or differences among the data. Concerning participant validation, once the analysis process was completed, the researcher offered the findings to the participants so that they could verify the findings. The results of the data validation are found in Chapter 7.

5.4 Conclusion

In this chapter, the research framework and methodology adopted by the researcher were discussed. The main topics discussed in this chapter were the research philosophy, research design, sampling technique, data collection, and data analysis. Concerning the research philosophy, the researcher adopted the interpretivist approach. The overall research design used to answer the research question was a qualitative exploration that is leveraged on grounded theory. This included judgmental sampling as a means to sample participants, in-depth interviews as a means to collect primary data, and Glaserian coding as a means to analyse the data and the use of triangulation to verify the primary data.

CHAPTER 6: RESULTS

6.1 Introduction

The purpose of this chapter is to discuss the profiles of the participants and to present the findings of the research. The findings suggest three main themes which are the business model, business model evaluation and external factors.

6.2 Profiles of the Respondents

Table 6: Summary profiles of each participant

Name	Occupation
Barry Parsons	Chief Strategy Officer
Ian Meaker	Executive Manager
Javed Malik	Chairman
Jerome Simelane	Managing Partner
Phumla Luhabe	General Manager

Barry Parsons has served as the Chief Strategy Officer at South African Airways (SAA) from June 2011 until July 2015. Previously, he was involved in various assignments with the Centre for Asia Pacific Aviation/CAPA Consulting which mainly dealt with state-owned airlines and aviation policy. He was involved in the design and implementation of Mango, SAA's low-cost airline subsidiary, and served as its head of the commercial division from 2006 until 2008. Furthermore, he holds a Graduate Diploma in Arts (Russian Studies).

Ian Meaker has served as the Executive Manager of Commercial Distribution since April 2013 at Comair. Previously, he served as the Executive Manager of Travel in the same company. He served in various roles in the travel industry such managing domestic and scheduled tours at Welcome Tourism Services and being in a managing director role at Tourvest. He holds a Victorian Certificate of Education in Psychology and Social Interaction and a National Diploma in Sales and Marketing Management.

Jerome Simelane currently serves as the Managing Director of Blue Crane Aviation Pty Ltd. He has worked in management roles at South African Airways and SA Express at HOD (Head of Department) and General Manager levels respectively. He currently holds a Bachelor of Science degree in Mathematics and Statistics and a Post Graduate Diploma in Business Administration.

Phumla Luhabe currently serves as the head of the commercial division at Mango Airlines and Javed Malik is the co-chairperson of Skywise.

A summary of the profile of respondents is found in Table 6.

6.3 The Business Model

As mentioned in the literature review, the study's definition of the business model is the rationale of how the business should be operated in order to capture value. It was also mentioned that there exists a variety of definitions of this concept with similarities. The similarities among the definitions mentioned highlighted key functions of the business model. These include the business model serves a blueprint for value creation and capturing, it identifies the sources of revenues and costs, and it defines the customer value proposition (Teece, 2010; Johnson, et al., 2008; Magretta, 2002; Gambardella & McGahan, 2010; Ghaziani & Ventresca, 2005; Doganova & Eyquem-Renault, 2009). With reference to low-cost airlines, the participants viewed the business model as an abstract strategic framework adopted by a business that serves as a guide in the operation of the business. The participants also mentioned that the business model should contain specific components such as business objectives, the product and target market, a cost reduction strategy, a cash flow strategy and the organisation. The participants agreed that all the mentioned business model components are used by an airline to achieve a competitive advantage. A discussion of each component with reference to the participants will follow.

The Organisation

Based on the views provided by the participants, this component refers to the structural design of an organisation, its management personnel, employee skill sets, governance structures, leadership and the organisational culture. The overall purpose of the organisation is to manage the product, target market, cost reduction, and revenue generation strategies.

Table 7: The participants and the Organisation

Barry Parsons	**Organisational structure**

	Mango on the other hand was set up and people at SAA always take this the wrong way but it was set up in a totally immunised legal and regulatory and financial framework so it would not be contaminated by its culture...But if you've got one business that's been substantially cash driven from day one and is significantly cash positive fulfilling its mandate and you've got another business that loses a lot of money and is substantially cash negative, it makes perfect sense to keep it separate. It is now becoming more commercially – there are code-shares between Mango and SAA. The LTTS proposed an integrated airline. That's not about putting the business; it's not a merger that is making sure decisions are made. You've got S AA, Mango, an integrated airline group. It's about capital allocation. The efficiency of the shareholders capital to make sure Mango is not running over the top of SAA and SAA is not running over the top of Mango and they're not competing with each other and destroying shareholder value for not optimising the deployment capital. The trouble is there are just too many personalities involved, so that hasn't come to fruition yet. So that's the principle of Mango. And that's stood it in great stead. It has many things separate. Both use SAA and [unclear]. Mango has a separate company secretary. Mango has its own same board. The CEO of Mango does not report to CEO SAA. He reports to the Chairman of the Mango Board. SAA is 100% shareholder of its subsidiary has its representation on that board. Separate engagements at all levels of government and stakeholders. Everything is separate and that's why it works, it doesn't have the legacy baggage which we're trying to fix and some areas are going better than others but some areas are going backwards. It's totally immunised from SAA whereas BA and Kulula that's not the case. There's probably a BA pricing guide and then on the other side a Kulula pricing guide. That's it. I'm not saying it's a bad model, I'm just saying it's a different result. Otherwise, just look at Comair's result, could they be running it better if it was all split. I don't think so. I don't think in their culture it's important. In our culture, it's massively important. That's the way we used it. We used very strong language around that, contamination, immunisation. It stood Mango in great stead.
Ian Meaker	**Expertise and skill sets** *You're not really getting away from the, when you're running an airline the LCC will be at a premium. You've still got to sell the tickets and operate the aircraft and maintain the aircraft. You've still got to do all your management revenue accounting. Price your seats correctly in terms of what demand sits in the*

	market. So there are no short cuts in how you operate an LCC and how you operate a legacy premium airline kind of service. You know, there are no fundamental differences. The same skill sets and the same knowledge, the same abilities apply to both. It's just the complexity that differs in both environments. We, from an LCC Kulula point of view, we run two brands in one infrastructure. I think a lot of the success of Kulula is the fact that we're covered in lots of areas in terms of infrastructure, the sales and distribution infrastructure, the revenue management infrastructure, checking system, s operational efficiencies, training, catering, we use the common infrastructure to support both businesses. They still require it. They still need them in terms of their core ability to function, there's no, there's no there might be a little bit more of a simplification, because of the type of product delivery but when it comes to time it's the same skills, same safety requirements, the same **Leadership** *…leadership in any business in terms of that business being successful, and sustainable is vitally important so it's not unique to our industry, certainly dependent on the level of complexity that lives within the business, the airlines themselves have a lot of different moving parts, you've got your operations, safety considerations, maintenance considerations around those aircraft, getting people on an off flight, then there's a lot of sales and distribution, how do you work with other airlines, in terms of boiling feed traffic in. There's a lot of expertise in a number of different areas, to get them to book direct, so there's a lot of skill sets involved in making an airline successful and sustainable. So yes, the skill requirements there, the leadership requirements are there but in terms of governance of the business passenger protection, we're a listed company and as a listed company, we follow very strict corporate governance within our specific business…*
Javed Malik	**Organisational structure** *..We're saying here privately owned company. We have a lot of pressure among management, we're not appointing everyone, so we are holding very tight. So everybody working 24/7 is not that, that is really key for us at the moment. Our expenses are less. There's a lot of work. And again, what I look at in this model. If you run by any big organisation, you will have 10 departments in one department.*

	Leadership *What happened, your leader is very important. Very important. Like it or don't like it. You need a strong leadership in an industry. And a business. You need a strong leadership. What is a very key factor to 1time failure, other airlines failure, you need to take right decision right time.*

Concerning the organisation, Jerome Simelane provided his views on leadership and the organisational structure. He mentioned that in an LCC, the leader should ideally be someone who thinks differently and is younger than traditional airline leaders. Furthermore, he stated that, if an airline is under a holding company, the costs could be subsidised as compared to an independent airline and that, if a holding company is operating two airline brands, it could lead to a duplication of roles.

Based on the above-mentioned views, the participants mainly focused on the organisational structure, leadership, and employee skill sets. Concerning the organisational structure, the resultant structure will be formed based on the culture of the organisation. Leadership is vital to an airline business because it is the leaders who make the decisions that could either make the airline sustainable or fail entirely.

Besides the opinions provided by the participants, the researcher discovered an internet article which was relevant to 1time and its leadership. The article, written by Pauw and Dommisse (2012), stated that Christo Ebersöhn (an aviation consultant) mentioned in a report that the old and new management of 1time had no clue on running an airline. The article also mentioned that there was a plan to save the airline but this plan was ultimately ignored. This adds to Javed's point mentioned in Table 7 where he mentioned that leadership is important.

Business Objectives

Business objectives refer to any goal the business intends to achieve. Concerning airlines, objectives may vary from one airline to the next and they inform the product, target market, cost reduction, and revenue generation strategies. Table 8 provides a summary of the participants' comments on the business objectives of airlines.

Table 8: The participants and the business objectives of airlines

Business Objectives

Barry Parsons	*…The objectives of Air Brunei which is owned by the Sultan of Brunei are different to the objectives of Fiji Airlines which is majority owned by the Fiji government and their objectives oared different to Qatar airwards, different to Emirates and they are different to South African Airways. So making money is not necessarily the objective…* *..One of the objectives of Emirates is state power. That's not an objective for SAA. That's why when I did the LCC report I said you've got to right back and look at the mandates and objectives...* *..Another example is a Scandinavian airline. They have three states that have the majority shareholding holding it together. Their objective now is to just keep the airline going…*
Ian Meaker	*..In terms of the low-cost airlines and maybe to try and understand your question a little bit better, but it's a model in, so we're [Kulula] not here to provide, we're a private enterprise and we look for commercial opportunity and we obviously look as to how we can generate a sustainable business and obviously profits in terms of our shareholders…* *..Customers can purchase that product, engage with it and at the end of the day, we can make profits out of it…*
Javed Malik	*Skywise's slogan is less is more. We will offer to the people or the consumer or the passenger less hassles in every direction, meaning that as a consumer what we want from our service provider, this report, whatever you want as a consumer, what we want, what services, value we want, so we're working on that, saying that people come first for us…*

Jerome Simelane stated that low-cost airlines primarily attempt to capture economic value at the lowest level, which will lead to social implications. Phumla stated that the business model provides a set of guidelines that show how a business should be operated. In reference to low-cost airlines, she stated that Mango aimed to capture both economic and social value. She believes that Mango has fulfilled its social mandate by attracting the un-flown market because, according to her, a significant number of Mango's passengers display the behaviours of first-time fliers.

The Product and Target market

Product philosophy refers to the product properties and its distribution channels. The target market refers to consumers at whom the product is aimed. Participants stated that the product offered by a low-cost airline is unbundled and every other luxury feature offered by a typical full-service airline is factored in should a customer desire any one of them. Concerning the target market, participants stated that the target market changes over time and those new types of consumers might come so it is important for low-cost airlines to align their products, its features, and distribution channels according to the market. Table 9 provides a summary of the participants' views on the product and target markets of low-cost airlines.

Table 9: Participants and their views on the product and target markets of low-cost airlines

The Product and Target Market	
Barry Parsons	*Mango is, I would still call it a low-cost airline. Mango is a low-cost airline, from affordability, accessibility for the South African and increasingly regional markets. It's already operating to Zanzibar and looking at other regions.* *…we are low-cost, you unbundle everything. You just start with the fare, and then everything else gets valuated in…* *…So that accessibility is not just can I afford to buy an air ticket in this country, how do I buy it. I go to Shoprite Checkers, I whack it on my [Edcon] card. So there's more Edcon store cards on issue in this country than there are credit cards. We did a very very detailed review of how to sell. It's not just pumping cheap fares out…* *Mango started in 2006 and by late 2007 we thought we can capture the SMME market. No one's focusing on that. It's not the big corporate, we thought there's lots of young black budding entrepreneurs who can't fly. We can see the boarding the airplane, we can upsell, we can create a slightly bundled product that gave you there the base there, which had no flexibility. So you had the flexibility, if you want to change it you can change it but it's going to cost you maybe more than the fare. So we got the base fare and said okay we'll add in lounge access so I went out and did the deal with BDNA. We added a voucher for onboard food. We added a pre-seating. That was a bit later actually. You got the actual price and paid more for this. You got something before you boarded and you got something*

	after you boarded. We created a product called Mango Plus. Now that's sort of rebundled stuff.
Javed Malik	*Every consumer wants to go buy tickets, sit and get, that kind of transport from one place to another place. When we came there we studied this business model. As you know we are business people, entrepreneurs. We say how we can add value, mean that we're offering a free cup of coffee, VIP treatment, red carpet treatment when you check in check out and most of on top of it we're very clear about that. Every passenger for Skywise is a key VIP. We want to give warm welcome. We don't want to, after door close, and the flight takes off. We don't want to forget about you, we want to teach you like you were important. We're focusing on service, very importantly and what is missing between us and other airlines, service. It's not about you're offering cheap tickets. Cheap seats. It's all about adding value. We are focusing on our promise to all our consumers and passengers is that for us people come first.* *…bear in mind, it's not about selling cheap tickets. It's about adding value. And we want to use this model as a restaurant service kind of model. But to bring it to our aviation industry. When you go to a restaurant if somebody gives respect, you don't mind paying extra money for it…*
Ian Meaker	*We look at the low-cost industry in terms of a business opportunity and in terms of a business opportunity and in terms of us being able to deliver a product into the market that serves a specific purpose and need to customers.* *…the consumer side of things has changed quite a bit. The reality with regards to air travel, and specifically short all air travel, so where we've got these distances, maximum hours, a lot of what that product is a commodity, now do I get from Point A to Point B. You're not thinking about necessarily how you get from Point A to Point B. How you get to Cape Town, as much as what I'm going to do. What's the hotel or I'm going on a business trip and I've got meetings and an agenda. These are my business objectives, I need to attend there, getting there is what's efficient, what's safe. It's a 2 hr flight. I can endure maybe a little bit more from a discomfort perspective...But what we are seeing is that we are seeing a broader cross section of customers, flying, to save costs, a lot of indep4enent business people, who are looking to save in terms of the overall travel budget. So the cross section of our customers, where when we launch the low fare product was much*

	more a leisure product looking how can we attach into the leisure market and get more people to fly. Now, we've kind of got a much broader cross section of people that engage in a low-cost level. Both in the corporate and leisure market, in terms of where they fly. So the distribution requirements around where we sell and where we give different markets access to our seats have also changed quite radically.

Phumla stated that Mango's product is focused on associability and affordability, which is consistent with Barry's view. Mango attempt to make their product accessible by widening their distribution network through third-party partnerships. There are two examples of this. Firstly, the partnership between Mango and Shoprite whereby passengers are able to purchase a Mango ticket at a Shoprite store. Secondly, the partnership between Mango and Edcon whereby Edcon account holders can purchase a Mango ticket on their Edcon account and pay for it over six months. From the view of the target market, Phumla stated that Mango aimed to attract passengers from the un-flown market and business travellers who are price sensitive. This required Mango to create a specific product for the business traveller. This product is called Mango Plus. The product is priced similarly to an economy class seat on a full-service airline; however, it has a few more features than a typical low-cost ticket. These features include lounge access, extra baggage allowance, flight change flexibility and a meal voucher.

Cost Reduction, Revenue Generation and Cash Flow Strategies

The cost reduction revenue generation and cash flow strategies component refers to the defining the sources of costs and the tactics applied to keep them as low as possible. The participants stated that a low-cost airline reduces their unit costs through high capacity and high frequency. It was also mentioned that fuel tends to be the highest cost of a low-cost airline and it is essential that a low-cost airline has a fleet of aircraft that is fuel efficient in order to keep its variable costs as low as possible. Table 9 summarises the cost reduction, revenue generation, and cash flow components of the business model.

Table 10: Participants and their views on cost reduction and revenue generation

Cost Reduction Revenue Generation Strategies	
Barry Parsons	**Cost Reduction** *In its purest form, about 60% of the unit cost production in full service to LCC comes from two things. One is hiring aircraft, the second is greater assistance.*

	So you've just got a 737-800. To lease one of those costs about US$220 - $260,000 a month. That's your fixed capital cost. If you can extract, if you're operating at 9 hours a day with 157 seats as opposed to 13 hours a day with 186 seats in the second version, the LCC version, you've produced much greater productive capacity from the same fixed capital cost. That's essentially the supply. The next is distribution. If you can sell a ticket for far less than the legacy airline and that's where Shoprite, Checkers come in and direct selling through the internet. That's where that comes in. Otherwise full-service airlines are selling through travel agents, attract costs like in the day. **Cash Flow** *There's a difference with LCC if you just compare Mango with SAA. We sell a ticket from Joburg to Cape Town with SAA right now and that is for Friday, I book that through a travel agent. We deliver the service on a Friday. WE get our cash through the bank settlement plan maybe in a month. Mango sells a ticket to Joburg and Cape Town on Friday, it gets the cash today and delivers the service later. What that does, it creates a massive shift in the dynamic of cash flow. LCC has a cash flow dynamic. It's a wave of cash that just pushes through….You get that wave of cash and the cash advantage an lc model has you use that to fund your next fleet acquisition ND you just grow your fleet funded from operating cash flows. You don't have to borrow much money. So that's another big advantage so once you've got it dealt with an LCC has got its direct selling model, generates this massive pile of cash...Airlines fail because they run out of cash. They don't fail because they don't make a profit. They run out of cash. So 1time, I don't think was much of a brand, first thing and second thing they had very very old aircraft. Whilst they would have a low asset value, so they had a very low fixed capital cost of production they burned a lot of fuel. Very high variable costs. 1time was an airline that had a very high variable cost equation and it was all around fuel.*
Ian Meaker	**Revenue and Costs** *..we've got a capital value of an asset, and we need to ensure that we can extract as much revenue in terms of our ability to operate that specific asset. So we've got a whole lot of different cost factors in the business, the metal tube itself in terms of its cost, but we've got variable and semi-variable costs, around, there's a direct correlation between fuel, and the passenger, there'd be a more indirect correlation between a crew member who would be crewing 2 – 3 flights and a*

	pilot and then somebody sitting in the finance environment, who is a cost related to all those passengers….So we have a seat, and at the end of the day when it comes to the fixed cost and the semi-variable cost component how can we lower the cost per seat, because at the end of the day, the efficiency that you create on a per seat basis allows you to either make a profit in terms of price that you're able to sell at or allows you to ensure that you can remain sustainable in environment where you've got intense competition or any of those types of things. *So modern aircraft is a very important part of the sustainability within the low-cost environment, you can imagine that an aircraft with 100 seats and an aircraft with 180 seats, you're flying relatively the same amount of time, and you're using relatively a similar amount of fuel, so if you've got more seats, it's another way to lower your cost per seat. You're dividing a fixed cost of 180. So the size of aircraft becomes very important in the model in terms of lowering the cost per seat. The frequency at which you're flying backwards and forwards becomes very important and then you've got a lot of other in terms of the engines of the aircraft in terms of fuel. The more efficient those engines are, at a more variable cost, respectively they start to be able to lower your costs, then you look at the distribution costs, the intermediaries or whether you sell more in terms of direct to the consumer. So there's a lot of other elements that come through to allowing you to sell and manage those costs and sell basically at a lower cost price to the consumer. Because at the end of the day you're mitigating a lot of costs in terms of number of seats, the efficiency of the aircraft and sweating and backwards and forwards. That's where the low-cost model has come to the fore, is around really efficiency, getting a lot of people into the aircraft, simplifying the product, not having complexity around meal delivery and business classes and it's really creating, really creating more of a bus service in terms of the volume and frequency based business, getting people onto the aircraft and off the aircraft as quickly as possible…* *I think 1time and the failure of 1time, a large contributor to that wasn't necessarily the leadership of the business, but it was related to the efficiency of the aircraft. Which only had, which had I think 120 seats, gas guzzlers, so when the oil price was sitting at levels of $40 - $50, you were able to operate them but the oil price went to $110 a barrel and a significant portion of your costs are in*

	fuel and when you've only got 120 seats, you've got to fuel the plane, you've got to get to the destination, you can't not get to the destination, they were hitting a cost level in terms of operating aircraft that were not economically viable in a high oil price environment. So that was their biggest challenge was the efficiency. This business from a sustainability perspective is very much based on efficiency.
Javed Malik	***Costs*** *You cannot stick with old aircraft and compete with the new aircraft. New machines. You cannot put me in a war without equipment. You need to give me equipment to war. Even top intelligent in the world need equipment.*

From a cost management point of view, Jerome Simelane stated that LCC's use cost differentiation as a means to stimulate demand for their products. This involves removing items that do not add value so that the product can be priced attractively. He also mentioned that the management of suppliers is important because the deals negotiated with them influence the costs. Phumla mentioned that the main costs of an LCC include maintenance, navigation costs, landing, and parking, insurance, and overhead costs. She also mentioned that variable costs accounted for 78% of Mango's total costs and that 38% of it was attributed to fuel.

6.4 Business Model Evaluation

The second theme that arose from the interviews is the evaluation of the business model. The participants viewed this as a means to review the business model and implement changes where necessary in order to exploit opportunities and to improve performance. The opportunities include new ways to create value, cost reduction techniques and new methods of obtaining revenue. Most of the participants were of the view that after a specific time or when necessary, components of the business model (such as customer value proposition, profit formula, key resources, and key processes) need to be reviewed and changed while using data from market research and key performance indicators as a basis for assessment. Some were of the view that businesses will need to reinvent themselves when performances start plateauing or adjust components of its business model. The data from the market research will provide guidance as to where changes need to be made. A summary of the participants view on business model evaluation is found in Table 11.

Table 11: The participants and Business Model Evaluation

Barry Parsons	**Culture Change** *You've got to look at low-cost airlines, are facing – what they face is that some of them age, the cultures age so the original teams that set them up, had all the experience and discipline, they can sometimes go away. One of the best celebrated cases is Jet Blue, which was launched with a great success, then the original team that built the thing just ran out of gas and the airline, essentially melted down. Had massive service failure. Had well documented things you can check. They had one case where I think some of the cabin crew were so tired of being unable to face the customers who were locked in aircrafts because of operational failures. I think one of them pulled the escape slide and popped down on the tarmac and just walked off. So they got pretty extreme, and the shareholders said we're going change this. They're very celebrated studying customer service and they've become quite famous for it. That's one of the challenges, you start an airline and after about five or six years, the original team has either lost energy or gone or did something wrong.* **Market Research and Key Performance Indicators** *Well, Mango let's say in about 2005, early 2005 SAA realized there was something wrong with their business domestically and it was basically four years since the first low-cost airline started here. So they knew something was wrong but weren't quite sure what was wrong, because all the reporting they were getting was showing market shares were holding up. Passenger numbers were holding up, revenue was holding up, but there was something wrong, and these guys were running all over the place. And what they weren't sure about but had confirmed was that there was a group of consultants from the Centre for Asia Pacific Aviation. I was one of those, so they thought they would start a low-cost airline. They had this sort of idea that they weren't quite sure why, how to go about it. Of course no one had started an airliner in SAA for 72 years. So there was no skill in how to start an airline. And we came in and did some analysis and sure enough there was something majorly wrong with the domestic market. SAA had lost about 20, 25% domestic market share, without really noticing it. Because they had been very busy running their full service business at the time and the new entrants Kulula and 1time had come in and grown the*

	market, but SAA had not participated in the market, because it was all direct selling, it was all low-cost, all sensitive. Those were people that couldn't previously fly. Around that time it was only around 12 – 13% of the population who had actually flown. *We did lots of market research. The fundamentals of starting an airline, you do market research. That's what you do. That informs your business model, your value proposition, network plan, fleet plan, etc.*
Ian Meaker	**Adjusting your Product to the Market Trends** *In Europe you're seeing that companies like Ryan air and Easy jet have become almost the default short-haul mode of transport and that corporate markets, so EasyJet's product has evolved tremendously, so much so that British Airways within the shorthaul markets within the European environment are looking at ways to change their product to meet more of the needs that sit within the low-cost environment. So when low-cost started, we've had two distinct models, premium service low-cost, we're getting this, this is starting to happen globally in terms of the short haul environment, in terms of almost like a middle tier airline developing where the models of both and the distribution opportunities within the legacy environment are merging into what is a much more efficient airline based on low-cost principles but offers more of the legacy airline benefits, flexibility – so there's a convergence that's taking place in the industry.*

Using 1time as a reference, participants mentioned other components that need to be evaluated in the business model of a low-cost airline. Jerome Simelane and Phumla Luhabe mentioned that 1time had experienced management and governance issues. All the participants mentioned that the airline had an ageing fleet, which implies that their variable costs were high and unsustainable. Phumla elaborated on this by stating that 1time attempted to protect its market share through low fares that proved to be unsustainable because of its high variable costs. Barry Parsons mentioned that 1time was losing brand relevance when Mango entered the market and it could have been sustainable if it improved its brand relevance to the consumer. It was also mentioned by Jerome that every organisation would need to reinvent itself when the performances begin to plateau; otherwise, they may face losing to new players. This was the case with 1time. Based on the opinions of the participants, it was clear that certain components of 1time's business model required attention. These components include the customer value proposition, profit formula, key resources, and key processes. The key was to discover which component required the most attention and that could have been done through a full evaluation of each component of the business model.

6.5 External Factors

The third theme suggested by the data is external factors; this refers to factors outside the control of the airline that could potentially create challenges and opportunities. Table 12 provides a summary of the participants' comments on the external factors.

Table 12: The participants and External Factors

Barry Parsons	**On Airports** *Well first of all people overestimate how big the South African market is. The South African market is not that big. It has one major route, Johannesburg Cape Town domestic but it's not good for secondary airports. Lanseria is a good airport. When we were starting Mango I did an evaluation of Lanseria if they would support Mango. SAA took the view that Lanseria's not going to work. Mango is not meant to have connecting traffic. It doesn't need a hub; it can make its own. Lanseria airport developed considerably since then, I had a guy who was an expert in secondary airports in India. He said Lanseria is the best secondary airport opportunity I've ever seen. They took the view that it was a bit low brow. I think that was a mistake. Mango eventually got in there…We looked at Waterkloof, Wonderboom, Virginia. Loads of secondary airports. We looked at Midrand airport; we looked at a range of airports. They either had runways too short. A few things like that. So in my view Lanseria was better option from the start* **Economic, Social and Regulatory Factors** *The global financial crisis was never going to kill Ryanair. It stopped its growth but there's other thinks like Egypt Air. If you look back 3 – 4 years Egypt Air had become a larger airline than SAA. But then the Arab spring came and it wiped about 80% of the business overnight. You can't sit at Egypt Air headquarters and plan for that. Volcanic ash clouds, Ebola virus in West Africa at the moment, Cathay Pacific. Regulatory change, it was the low airline of Hungary. Hungary joined the European Union. State subsidies for airlines were illegal. They liquidated in a couple of months. That caused Whizz to go from being an okay airline to being quite substantial because their subsidized full*

	service competitor was gone and now Whizz has done a listing on the stock exchange. Become that successful. So, a challenge is seizing the opportunity as well as just making sure you don't get run over by a truck. So now the guys at Whizz could have just said we'll go and have a few beers tonight because now we're able to sell more tickets. Someone else went no now we'll be able to increase the size as well – so challenges are adapting to changes in market condition
Javed Malik	**Industry Practices** *It's a very controversial statement but I'm going to give it to you now. Again this industry like I'm saying I'm a politician so we don't care, sportsmen as well. We're the fighters and we always speak open and from our heart not from our brain, and our, we are only 20 years democracy, we're still young in every direction. Still learning. A lot of departments we are very unmatured. If you come to aviation industry. Like I said there's older school thinking. Aviation is first of all dominated by one colour. Like blacks are like us, they want to go to industry. They're thinking oh come on, you're part of us, you're not part of us. I believe there's still apartheid exercises happening in the aviation industry. Like we're saying that, you're a black company can't be successful. Why can't you and then make sure, make sure you go – they do every effort to make you failure. Let's say that you go to the airports. We're a domestic airline. They give your office an international site. I say but people coming to buy a ticket for Air Somalia but saying we're domestic. If you're domestic your presence should be domestic site. Not the international site. When you talk to them, like you're talking to the Chinese. They don't understand. Bongani our CEO likes to give good speeches in the media are we looking for the new businesses, start up, come I give you help. Then you get there, they don't understand what they're talking about. I've I'm a domestic airline where I need to be the domestic. If one airline in four offices and a management, they can move anywhere they want. They holding, they don't want anybody else come to take their place. So are you helping them to overcome failure?*
Ian Meaker	**South African Market** *Competition is always healthy, just whether or not in terms of the models they deployed sustainable in terms of what it is that they are setting out to achieve. So you know, what we have in South Africa is very much a market that isn't growing. So the market for what we do, isn't growing. So if we were seeing economic growth rates of 3,4,5,6 per cent we would naturally see a lot more*

	people entering the market and a lot more demand. What we have in terms of a much more stagnant economy and challenges that exist with electricity supply and all of those types of things, is we don't see the market growing. More seats are being added to the capacity that exists so your ability to fill your aircraft gets spread over more airlines, more, so your opportunities from revenue perspective to cover your costs become a bit more squeezed. So at the end of the day, who's the most efficient? Because the most efficient person that can operate at the lowest cost is going to sustain themselves in terms of – you know, what it is that we achieve….. we've got a second challenge within South Africa is our aircraft are a dollar based asset, fuel is linked to, the cost of fuel as we know every month it changes depending on what the dollar, also the translation of the dollar based oil price into rands, your maintenance is in dollars, you buy parts and doing all of those types of things in the dollar based environment, so 48% of our costs are dollar based. So if we see the material devaluation in the rand, 48% is directly felt at that evaluation. So when the currency moves, the fuel price moves the cost of equipment moves, the cost of maintenance moves, there's a huge impact in terms of the effect of the dollar. So we have a double whammy. We have a kind of core fuel price issue, but we also have a rand dollar issue.

Concerning airports, Barry Parsons mentioned that the South African market is smaller than perceived by most individuals. The size of the market implies that a low-cost carrier such as Mango did not need to have a hub and that many airports were studied and analysed before an appropriate one was selected. Concerning economic, social and regulatory factors, Barry Parsons mentioned that external factors could be seized by airlines. Javed Malik mentioned that the mentality present in the airline industry in South Africa is old and needs to be changed so that the industry itself will not be so hostile to new entrants. Ian Meaker believes that competition is healthy. Furthermore, he mentioned that the South African economy has a low economic growth rate yet airlines are increasing capacity.

6.6 Conclusion

In this chapter, the main themes from the data were discussed. The themes were the business model, the business model evaluation and external factors. The business model contained four components. The components include the organisation, business objectives, the product and target market, and cost reduction and revenue generation strategies. It was noted that the organisation has two roles in the business model. Firstly, it has to manage the product, the costs and the revenue components of the business model and, secondly, it has to define the business objectives that in turn inform the product, the costs and revenue components. The business model evaluation theme dealt with the assessment of business model components while using market research and key performance indicators as a basis for assessment. Ideally, changes to the business model are suggested because of this process. Concerning external factors theme, it was suggested by the participants that firms need to seize opportunities that present themselves in the market and handle the challenges brought by the market.

CHAPTER 7: DISCUSSION ON FINDINGS

7.1 Introduction

The objectives of this chapter are threefold. Firstly, to provide an in-depth discussion of the findings in the previous chapter and secondly, to provide the consistencies and inconsistencies it has with established literature and lastly, to provide a conceptual model based on this study's findings.

7.2 Main Findings

As mentioned in the previous chapter, three themes were suggested which were the business model, the business model evaluation and external factors. The participants suggested that the business model is an abstract strategic framework adopted by a business that serves as a guide in the operation of the business and that it has four main components, which were the organisation, business objectives, the product, cost reduction, revenue generation, and cash flow strategies. Furthermore, based on the opinions of the participants, it was suggested that the organisation defines the business objectives and manages the product, cost reduction, revenue generation and cash flow strategies while the business objectives inform the product, cost reduction, revenue generation and cash flow strategies. Business model evaluation is the assessment of the business model components and changing any one of the components where change is required. The themes provided by the participants are consistent with previous research on the business model (Linder & Cantrell, 2000; Casadesus-Masanell & Ricart, 2010; Zott & Amit, 2010; Teece, 2010). A discussion on these consistencies will now be provided.

7.3 The Business Model

Concerning the business model, it was mentioned in the previous chapter by the participants that the business model is an abstract strategic framework adopted by a business that serves as a guide in the operation of the business. Furthermore, the business model contains components such as business objectives, the product and target market, cost reduction strategy, revenue generation strategy, cash flow strategy and the organisational structure. It was also mentioned that the organisation defines the business objectives and manages the product, cost reduction, revenue generation and cash flow strategies while the business objectives inform the product, cost reduction, revenue generation and cash flow strategies.

Concerning the overall definition of the business model provided by the participants, this is consistent with the definition of Linder and Cantrell (2000, p. 1) which is the firm's core logic of value creation. The consistency of the two definitions is within the business objectives. In the definition derived from the participants, it was mentioned that the business model defines business objectives and one of those objectives will be capturing a particular value, which could be economic or social (Amit & Zott, 2001; Magretta, 2002; Thompson & MacMillan, 2010). With reference to a low-cost airline, the objective would be to transport flown or unflown passengers from one city to the other at a low-cost and make a profit out of it. Based on this objective, it forms the logic of value creation from two dimensions, which are from the economic, social viewpoint. The economic value is making a profit from meeting the needs of the consumer. The social value is that consumers who were not able to utilise air transport as a means of travel are now able to afford it.

The definition of the business model derived from the participants also mentioned components such as the product, the target market, cost reduction strategy, revenue generation strategy, cash flow strategy, and the organisation structure. These components, besides the cash flow strategy, are consistent with the views of Linder and Cantrell (2000) and previous research done by Teece (2010), Lindgren (2012) and Johnson, and Christensen & Kagermann (2008). Linder and Cantrell (2000) stated that one of the components of the business model is the organisational structure. Concerning the components such as cost reduction strategy, revenue generation strategy and cash flow strategy, Teece (2010) stated that these are outlined by the business model and that the product and the target market are essential in making the business model effective. Lindgren (2012) further supplements this by stating that the target market forms a building block for the business model. Johnson, Christensen and Kagermann (2008) mentioned that the business model has four main components and together they deliver value. These components are customer value proposition, profit formula, key resources and key processes. The components derived from the participants that are consistent with the components provided be Johnson et al. (2008) are the product, the target market, cost reduction strategy, revenue generation strategy, and the cash flow strategy. The product and the target market will fall under the customer value proposition. This involves defining the target customer, identifying the need and fulfilling the need. The remaining components such as the cost reduction strategy, revenue generation strategy, and the cash flow strategy fall under the profit formula. This involves constructing a revenue model, defining the necessary costs, identifying the profit for each transaction in order for an overall profit to be made and identifying the speed at which resources need to be utilised in order to support target volumes.

7.4 Business Model Evaluation

The second theme, business model evaluation, involves reviewing each component of the business model and implementing changes where necessary. The changes are done so that an airline will be able to improve competitively. Airlines implement the evaluation of the business model by conducting market research and using data from the market research and key performance indicators as a basis for assessment. The data from the market research and the key performance indicators inform the relevant components of the business model. From there, changes are suggested and implemented. This is consistent with previous research conducted by Chesbrough (2007) and Mitchell & Coles (2004). Chesbrough (2007) introduces the business model framework (BMF) and uses it as a means to identify opportunities for business model innovation. The consistency between the findings and Chesbrough's (2007) study is that the study mentions that the business model needs to be assessed prior to any innovations to the business model; however, the findings do not suggest the use of an established framework that assess the business model but rather the use of market research and key performance indicators. Mitchell & Coles (2004) coined the term 'business model improvement'. This refers to changes to the business model that result in improvements in sales and earnings. They also mention, in the study, a need for an ongoing process of introducing improved and replaced business models to gain a competitive advantage. The assertion that there is a need for an ongoing process of introducing improved and replaced business models to gain a competitive advantage is consistent with the study's finding of business model evaluation. The researcher's finding suggests a need for airlines to review their business models after a specific period or when the need arises and improve on specific elements in order to improve performances.

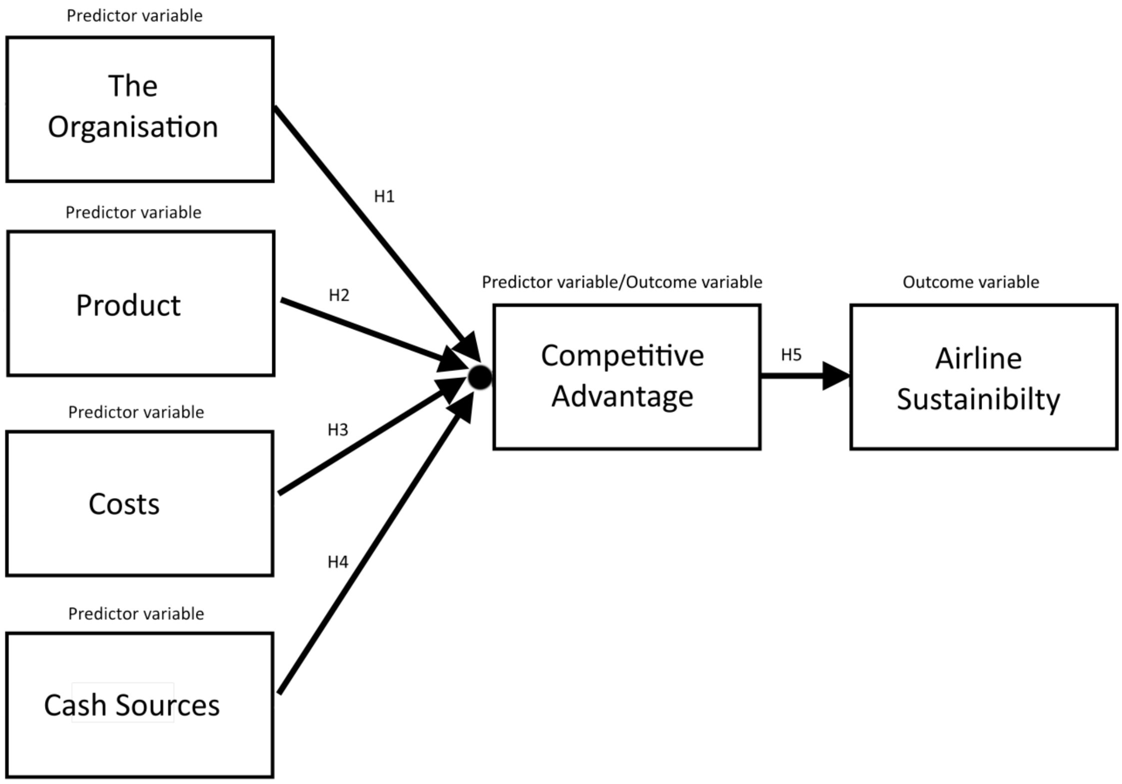
7.5 External Factors

Based on the findings, it was suggested that external factors could create opportunities and challenges for a low-cost airline. Concerning challenges, these include market size, airport costs, social changes, economic climate, regulations, and industry practices. It was also mentioned that airlines would need to act appropriately in dealing with the challenges and opportunities brought on by external factors. This is consistent with Sosna et al. (2010). Their study suggests that trial-and-error learning is essential in the innovation of a business model given the alterations in the external environment.

7.6 Development of the Conceptual Model

In Chapter 5, it is mentioned that the researcher aimed to define the problem areas fully and formulate hypotheses for further investigation and/or quantification. Furthermore, it is mentioned that the third step in the data analysis process is to summarise and present the structure that is seen in collected qualitative data. The adopted process allowed the researcher to draw conclusions that would be investigated in a subsequent study. This section aims to fulfil the step of displaying the data in a structured manner and to fulfil the research objectives, which was to propose a conceptual model for sustainability within the context of disruptive innovations, such as a low-cost airline, in a developing country setting. It needs to be noted that the conceptual model is one that will be tested in a subsequent study. Based on the main findings, the researcher presents the findings using the following graphical illustration in figure 8.

Figure 7: Proposed conceptual model



Source: Developed by researcher (2016)

In the above illustration, there are five main predictor variables, which can be divided into sub-categories, and an outcome variable. The five main predictor variables are the airline's organisation, the airline’s product, the airline costs, the airline's cash sources and competitive advantage. The dependent variable is the airline’s sustainability.

7.6.1 Hypothesis Development

6.5.1.1 Competitive Advantage

The competitive advantage variable, competitive advantage, serves as both a predictor variable and an outcome variable in this proposed conceptual model and is reflected in the above figure. Based on previous research, there are four main strategies for achieving a competitive advantage. These include cost leadership, product differentiation, innovation, and operational effectiveness. (Amit, 1986; Hult, 2002; Dickson & Ginter, 1987; Christensen, 1997). Product differentiation refers to the modification of a particular product in order to better satisfy the needs of a consumer (Dickson & Ginter, 1987). Cost leadership refers to the reduction of costs in order to become more profitable (Amit, 1986). Operational effectiveness refers to performing operations better than competitors do and innovation strategy refers to the introduction of new products or services to deliver value (Christensen, 1997). According to Sundar, Bharadwaj, Varadarajan, and Fahy (1993), competitive advantage refers to the superior performers in a particular industry who possess special resources that are difficult to imitate and they refer to those special characteristics as sources of competitive advantage. To ensure the sustainability of competitive advantage, the special resources need to prevent duplication by competitors. They also claim that competitive advantage can emanate from two circumstances. The first circumstance is conducting a value-creating strategy that is not being conducted by competitors simultaneously. The second circumstance is the superior performance of the same strategies currently being adopted by competitors.

When considering the theoretical framework and its relation to competitive advantage, the theoretical model supports the theory of competitive advantage through Johnson, et al (2008). They stated that when all components of the business model (such as customer value proposition, profit formula, key resources, and key processes) are executed correctly, value is created. With the four components, competitive advantage can be achieved through product differentiation which affects the customer value proposition, cost leadership which ultimately affects the profit formula, and operational effectiveness which affects key resources and processes.

6.5.1.2 The Airline's Organisation

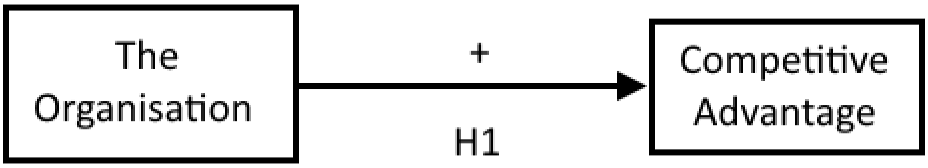
Based on the findings of this study, an airline's organisation is comprised of six factors. These are the structural design of an organisation, management personnel, employee skill sets, governance structures, leadership, and the organisational culture. These findings were supported by Linder & Cantrell (2000). Based on research conducted by Kazlauskaite and Buciuniene (2008), for an organisation to achieve a competitive advantage, it would need to meet two requirements. The first requirement is that the organisation needs a pool of employees who are unique and valuable. The second requirement is that the organisation needs effective people management practices. This is supported by Barney & Wright (1997) who use the VRIO framework to assist an organisation in gaining a competitive advantage. They claim that all human resources activities that are valuable but not rare, or valuable and rare but imitable should be taken into consideration in attempting to achieve a competitive advantage. Obtained from the above literature, it is evident that a firm's resource activities have a positive effect on the firm's competitive advantage if the activities are valuable but not rare, or valuable and rare but imitable.

When considering the theoretical framework and its relation to the airline's organisation, the literature supports this relationship. As mentioned previously, Johnson et al (2008) stated that the business model has four key components and, when these components are combined, they deliver value. These components are customer value proposition, profit formula, key resources, and key processes. The components most relevant to this relationship are key resources and are required in order for a profitable customer value proposition to be delivered. These resources include people, technology, equipment, information, channels, alliances, and the brand. The component most relevant to this alleged relationship are people. According to the literature, value will be delivered with the correct people in place. Lovelock & Wirtz (2011), state that service employees play vital roles in the service which include being a source of competitive positioning, generating sales, cross-sales, and up-sales, drive productivity of frontline operations, and provide a source for customer loyalty. The assertion from Lovelock and Wirtz show that employees play a vital role in gaining a competitive advantage.

This study, therefore, alleges that there is a possible positive relationship between the organisation and its competitive advantage.

H1: There is a possible positive relationship between the airline's organisation and its competitive advantage.

Figure 8: Hypothesis 1



Source: Developed by researcher (2016)

6.5.1.3 The Airline's Product

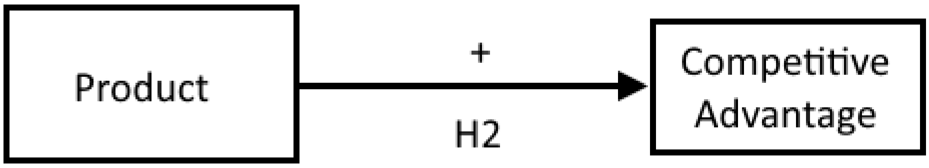
The study's findings suggested that the product of a low-cost airline has to be aligned to the market. What was also discovered was that the market is continually changing and that managers need to adapt their product to the market. All strategies have an impact on this construct due to the nature of the services marketing mix. The services marketing mix is discussed in the literature review chapter. As a reminder, the services marketing mix consists of the product, place, promotion, price, people, processes and the physical environment.

It is mentioned in the literature review that that marketing mix can be applied to services from four perspectives. These perspectives include developing service products, the distribution of services, pricing and revenue management, promotion of services and the education of customers. When these components are combined and executed correctly, firms are able to compete and offer services of superior quality (Lovelock & Wirtz, 2011). Furthermore, Johnson, et al (2008) listed four components of the business model that enable value creation. These components are customer value proposition, profit formula, key resources, and key processes. The most relevant component is key resources. The reason for this is that the product that the airline sells to its customers enables the firm to create economic value by gaining revenue through the sales of its products and social value by providing a service to the customer.

Based on the above, the study alleges that there is a possible positive relationship between the product and competitive advantage.

H2: There is a possible positive relationship between an airline's product and competitive advantage.

Figure 9: Hypothesis 2



Source: Developed by researcher (2016)

6.5.1.4 The Airline's Cost

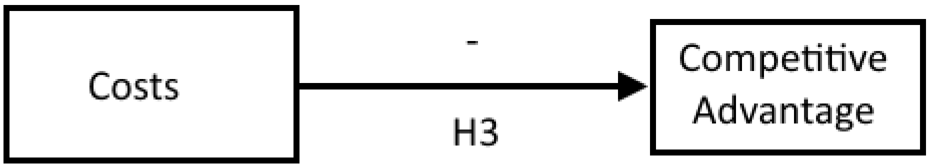
Based on the findings of this study, it was suggested that a low-cost airline should have a strategy for reducing its costs because this is what enables it to offer relatively low fares. In an industry where there is little differentiation between products, the price will be the main determining factor in stimulating demand. It was also discovered that the variable costs of operating the fleet are the biggest contributor to the costs of a low-cost airline. This is mainly attributed to the costs of jet fuel. Any change in the rand and dollar exchange rate will affect the price of fuel because crude oil is purchased in dollars. Changes in the price of crude oil will also affect the price of jet fuel. Besides the sources of costs associated with a low-cost airline, there are specific strategies designed to assist a low-cost airline, these include serving secondary airports, high aircraft utilisation and high labour productivity to increase efficiency, possessing a common fleet, lower salaries, outsourcing services, ancillary revenues, effective negotiations, single class configuration on all aircraft in the fleet, low admin costs, internet bookings and a website that includes third party suppliers (Moereira, et al., 2011).

From the competitive strategies mentioned earlier, the strategy most relevant to this construct is cost leadership because the sources of an airlines' cost and the strategies adopted to lower the costs form part of the strategy in reaching profitability (Amit, 1986). With regards to literature, Lindgardt, et al (2009) support this by stating that the operating model component of the business model has to be executed profitably. Furthermore, Johnson et al (2008) stated that the profit formula of a firm involves constructing a revenue model, defining the necessary costs, identifying the profit for each transaction in order for an overall profit to be made and identifying the speed at which resources need to be utilised in order to support target volumes.

Derived from the above, the study alleges that there is a possible negative relationship between the costs of operating an airline and its competitive advantage.

H3: There is a possible negative relationship between the airline's costs and its sustainability.

Figure 10: Hypothesis 3



Source: Developed by researcher (2016)

6.5.1.5 The Airline's Sources of Cash

The findings from the study suggested that an airline would require cash to sustain its operations. This implies that as long as an airline could accumulate enough cash and generate deep cash reserves, it would be sustainable. If an incumbent airline has deep cash reserves, it will be able to compete with new competitors. To explain this assertion, consider the following example. When a new airline enters the market, the market share of an incumbent airline will decrease. Naturally, the incumbent will adjust to the new entrant by lowering its fares up to the point where it is cheaper than the competitor even though it is unprofitable. Because of the low fares, the incumbent will not be able to generate enough cash to sustain its operations. This will lead to it accessing its cash reserves to fund its operations until the competitors leave the market.

When discussing this construct, it is important to note that the dichotomy between cash sources and cash collection methods. Cash sources refer to the specific business areas where cash can be generated and cash collection methods refer to the means by which cash is collected. Concerning sources of cash, these include revenues, cash reserves, debt, and funding from ownership. Furthermore, cash can be collected efficiently by a few methods. The first method is to obtain full payment of the service before the service is conducted and the second method is to create alternative paying methods through third party partnerships.

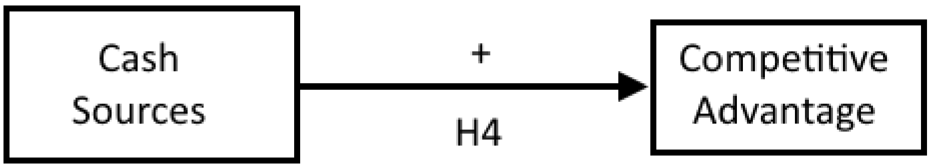
From the definition of competitive advantage, it was mentioned that competitive advantage is achieved when a firm in a particular industry possesses special resources that are difficult to imitate and those special resources are referred to as sources of competitive advantage. So in the case of an airline having access to cash, that can be seen as a source of competitive advantage because the cash will enable an airline to fund its operations and possessing large cash reserves is difficult to imitate. (Amit, 1986; Hult, 2002; Dickson & Ginter, 1987; Christensen, 1997).

Based on the definition of competitive advantage, it is clear that there is a link between competitive advantage and sustainability.

Based on the above, the study alleges that there is a possible positive relationship between an airline's source of cash and its competitive advantage.

H4: There is a possible positive relationship between an airline's source of cash and its competitive advantage.

Figure 11: Hypothesis 4



Source: Developed by researcher (2016)

6.5.1.6 The Airline's Sustainability

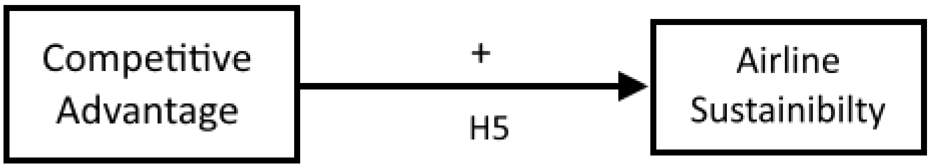
Based on the findings, it was suggested that sustainability is achieved when the business is able to meet the needs of the consumer while having enough cash to sustain the operations of the business. As mentioned earlier, the sources of cash in a business are revenues, cash reserves, debt, and funding from ownership. This implies that a business does not need to make a profit to be sustainable. All that is required is cash. This is not consistent with Pojasek's (2007) definition of business sustainability, which he defines as a means to achieve the organisation's objectives and the pursuit of creating long-term shareholder value by adopting the opportunities and handling the risks that result from an organisation's economic, environmental, and social responsibilities.

When comparing the finding that suggests that sustainability is achieved when the business is able to meet the needs of the consumer while having enough cash to sustain the operations of the business to literature, there are a few concords and discords. When viewing the definitions of the business model provided by Johnson et al (2008) and Lindgardt et al, (2009), it was mentioned from both definitions that the business model needs to create value and by maintaining this value, sustainability can be achieved. The means achieving value and its relation to sustainability is inconsistent with findings. The findings suggest that it cash that sustains a business. Literature, on the other hand, suggests that sustainability is achieved through delivering value. Even though the findings from this study and views provided from the literature are in discord on how competitive advantage is achieved, they do share the sentiment that gaining a competitive advantage leads to sustainability.

Therefore, the study alleges that there is a possible positive relationship between the competitive advantage and airline sustainability.

H5: There is a possible positive relationship between an airline's competitive advantage and its sustainability.

Figure 12: Hypothesis 5



Source: Developed by researcher (2016)

7.7 Conclusion

This chapter discussed the findings of this study and proposed a conceptual model. It began with a discussion on all the main findings of the study, which included the business model components, the evaluation of the business model and external factors. This was followed by a discussion on the conceptual model and five hypotheses were alleged.

CHAPTER 8: CONCLUSION, RECOMMENDATIONS AND CONTRIBUTION

8.1 Introduction

This chapter provides a review of the main findings. This chapter also discusses the managerial implications and limitations. The chapter is concluded with recommendations for future research.

8.2 Review of Main Findings

This study aimed to answer the following research question: "In the context of disruptive innovation in an emerging country, what business model components are necessary for a disruptive innovation, such as a low-cost airline, to be sustainable?" Keeping the research question in mind the study aimed to achieve one objective which was to investigate key factors that enable or inhibit a disruptive innovation, such as a low-cost airline in an emerging market like South Africa, and propose a theoretical model for the sustainability of disruptive innovations, such as a low-cost airline in a developing country setting.

In response to the research question, the study suggested three themes, namely: the business model, business model evaluation, and external factors. The business model possesses specific components such as business objectives, the product and the target market, cost reduction strategy, cash flow strategy and the organisation, and these components are used by an airline to achieve a competitive advantage. Business model evaluation refers to the review of the business model and implementation of changes where it is necessary in order to exploit opportunities and to improve performance. Lastly, external factors refer to events and circumstances outside the control of the airline that could potentially create challenges and opportunities. Based on the findings, the study suggests that the business model components assist a low-cost airline in gaining a competitive advantage and that the competitive advantage assists the low-cost airline in achieving sustainability. Derived from this suggestion, a conceptual model with hypotheses was proposed in accordance with the research objective. In summary, the study alleges, firstly, that a low-cost airline's organisation, product and cash sources are positively related to its competitive advantage while its costs are negatively related to its competitive advantage and, secondly, that the competitive advantage of a low-cost airline is positively related to its sustainability.

8.3 Managerial Implications

This study presents numerous managerial implications for managers of low-cost airlines in an emerging market. The findings of this study serve as a starting point for understanding the sustainability of low-cost airlines in South Africa. The study presented business model elements that could potentially influence airlines' competitive advantage. Since those components are under the control of an airline, managers will have some knowledge on where to focus their efforts on achieving sustainability. From the organisational perspective, managers may have to alter their structural design, their management personnel, employee skill sets, governance structures, leadership, and the organisational culture to achieve sustainability. In other words, managers may have to set objectives and match their employee personnel, employee skill sets, governance structures, leadership, and the organisational culture to its objectives. Lovelock and Wirtz (2011), substantiate on this by stating that manager will need to empower their employees. They can do so by conducting training on the culture of the organisation, strategy and purpose, interpersonal and technical skill and product and service knowledge. Adequate training will result in employees responding with flexibility to customers' needs. Managers may have to innovate its business model to achieve cost savings. Furthermore, Lovelock and Wirtz (2011) state that managers should be aware that the complexity of their pricing models can drive consumers away. If customers see that there are numerous hidden fees, then that could let to consumers thinking that services firms are unethical. Managers should be more transparent in their revealing of prices. Concerning the sources of cash associated with an airline, managers may have to create extra revenue streams or other sources of income to increase its reserves. One way managers can do this is to improve the revenue management of the airline or add supplementary products. Concerning the costs of an airline, this has to be kept as low as possible. Costs can be kept low through aligning inventory according to demand.

Both established firms and prospective entrepreneurs can utilise these studies to sustain their current business models or to create new models. Specifically, in the South African airline industry, experience shows that many new airlines have entered the market with low-cost models but have become defunct. There seems to be little systematic studies on this phenomenon. Besides managers of current low-cost airlines, other beneficiaries of this study are those who plan to launch low-cost airlines in the South African market. Those who plan to launch a new can utilise this study as a source of information on what to expect in the airline's industry.

8.4 Limitations

This study aimed to understand the catalysts and inhibitors of the sustainability of disruptive innovations. It did provide meaningful insight but it had the following limitations. Firstly, the sample was too specific. Because of the small number of low-cost airlines in South Africa and the small sample of participants, the study's findings cannot be generalised. The model will need to be empirically verified in a subsequent study.

Another limitation is that the model developed in this study does not take the external environment into account. The model specifically focused on the internal factors that contribute to the sustainability of a low-cost carrier.

8.5 Future Research

This study has contributed to the field of business model innovation, innovation management, and marketing. Based on the findings of the study, airlines are able to reconfigure the business models to achieve sustainability. Future research could focus on conducting an empirical analysis of the proposed conceptual model or on other related topics. Examples of other related topics may include the sustainability of disruptive innovations in other products or services such as banking, retailing and technological products. Another avenue of research is to investigate factors that contribute to the sustainability of other disruptive innovations.

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APPENDIX A: Ethics Clearance Certificate

Research Office

HUMAN RESEARCH ETHICS COMMITTEE (NON-MEDICAL)
R14/49 Denga

CLEARANCE CERTIFICATE	**PROTOCOL NUMBER H14/07/20**
PROJECT TITLE	Sustainability of disruptive service business model innovation in an emerging country: The South African commercial airlines industry
INVESTIGATOR(S)	Mr D Denga
SCHOOL/DEPARTMENT	Economic & Business Science
DATE CONSIDERED	18 July 2014
DECISION OF THE COMMITTEE	Approved Unconditionally
EXPIRY DATE	21/08/2016

DATE 22/08/2014 **CHAIRPERSON** ______________________ (Professor T Milani)

cc: Supervisor : Mr N Chiliya

DECLARATION OF INVESTIGATOR(S)

To be completed in duplicate and **ONE COPY** returned to the Secretary at Room 10000, 10th Floor, Senate House, University.

I/We fully understand the conditions under which I am/we are authorized to carry out the abovementioned research and I/we guarantee to ensure compliance with these conditions. Should any departure to be contemplated from the research procedure as approved I/we undertake to resubmit the protocol to the Committee. **I agree to completion of a yearly progress report.**

______________________ **Signature**

____/____/____ **Date**

PLEASE QUOTE THE PROTOCOL NUMBER ON ALL ENQUIRIES

APPENDIX B: Participation Information Letter, Consent Form and Interview Guide

Participation Information Letter

Good Day,

My name is Dumo Denga. I am a Masters student at the School of Economic and Business Sciences, University of the Witwatersrand. I am conducting a research on the topic of *"Sustainability of Disruptive of Low-cost Airlines"*

The purpose of this study is to investigate key factors that enable or disable disruptive business model innovation in a service industry in an emerging economy context such as the low-cost commercial airlines industry and to propose a theoretical model for developing a sustainable disruptive service business model innovation.

You are kindly invited to participate in my research and you can withdraw from any stage of the interview without any consequences but it would be highly appreciated if you participate in this interview in its entirety. By completing this interview, you will be assisting me in achieving my Master's degree and contributing to the limited literature on this topic in South Africa. Thank you for your time, it is highly appreciated.

A consent form and the interview guideline questions are attached.

Yours sincerely,	Supervisor
Dumo Denga	Mr Norman Chiliya
384780@students.wits.ac.za	NormanChiliya@wits.ac.za

Interview Consent Form

Degree MCom Dissertation

Course Code BUSE 8002

Dissertation Title: Sustainability of Low-cost Airlines

I,____________________ (participants name;), understand that I am being asked to participate in an interview that forms part of Dumolwakhe Denga's required coursework in the above stated University of the Witwatersrand course. It is my understanding that this interview will cover the following subjects or topics:

- Low-cost Airlines
- The Business Model of Airlines
- The Aviation industry in Genenral

I have been given some general information about this project and the types of question I can expect to answer. I understand that the interview will be conducted at a place and time that is convenient to me, and that it will take approximately___________ of my time.

I understand that my participation in this project is completely voluntary and that I am free to decline to participate, without consequence, at any time prior to or at any point during the interview. I understand that, with my permission, this interview may be either audio or video recorded and that any information I provide during the interview will be kept confidential, used only for the purposes of completing this assignment, and will not be used in any way that can identify me. All interview notes, tapes, or electronic records will be kept in a secured environment. The raw data will be offered to me no later than four months after the completion of the assignment. If I decline it, it will be destroyed by the researcher. I will also be provided with a copy of the student assignment at my request.

Tick only one of the following boxes

☐ I consent to the video or audio recording of the interview.

☐ I do not consent to the video or audio recording of the interview

I understand that the results from this interview will be used exclusively in the below-named student's University of the Witwatersrand course assignment and none of the information I provide will be published, in any form, in any journals or conference proceedings.

I also understand that there are no risks involved in participating in this activity, beyond those risks experienced in everyday life.

I have read the information above. By signing below and returning this form. I am consenting to participate in this project via face-to face interview as designed by Dumolwakhe Denga, a student from the University of the Witwatersrand

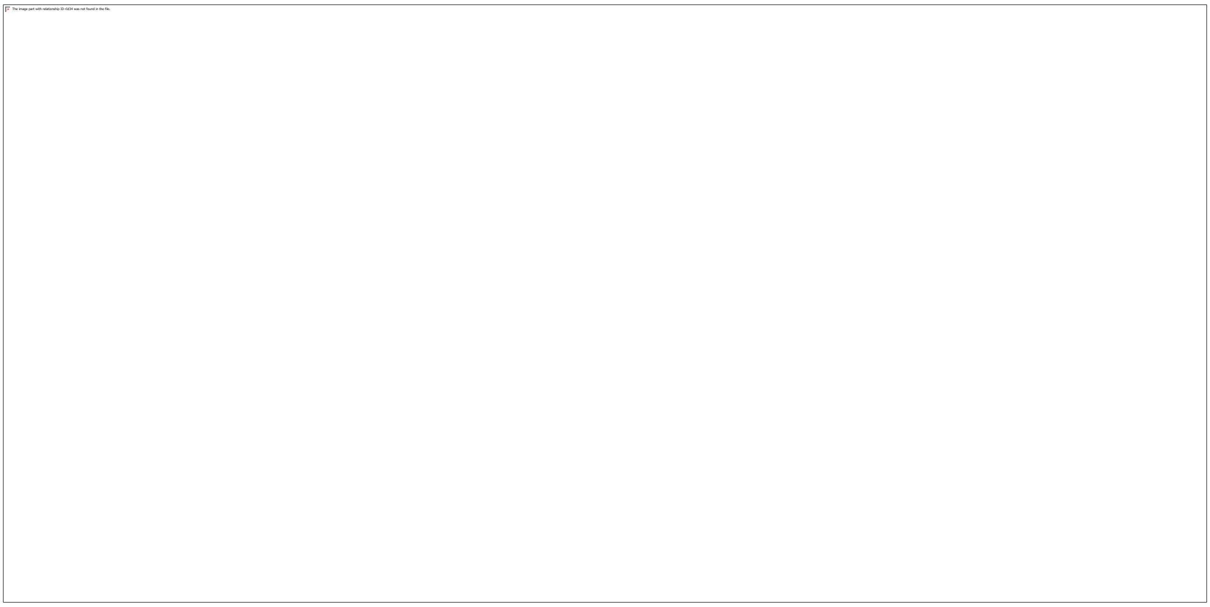
Participant name (please print):____

Signature: ____

Date ____

Interview guideline questions

1. With regards to a Low-cost Airline, what type of value is intended to be created or delivered? Is it economic, social or any other type of value outside of the mentioned parameters?
2. What is your definition of a business model?
3. With that definition in mind, how would you apply it to a Low-cost Airline?
4. In your opinion, how does the governance, transaction content and structure within a LCC create value or exploit opportunities?
5. Which types of customers do LCC airlines target and are there any other customers which are being neglected by LCC’s which they should service.
6. If you had to construct a basic profit formula for a LCC, what will you include in your revenue model and what will be the necessary costs?
7. In your opinion, what are the key resources or key processes within a LCC, and how are the resources are and processes utilised in order to achieve the value proposition of a LCC?
8. Below is a picture of a Value Chain (Business process). If you had to adapt this to a LCC, what would you add or omit.



9. Which points of the Value Chain, in your opinion, are crucial to the sustainability of a LCC operating in South Africa?

10. 1time existed for a short period of time, when compared to Mango and Kulula. In your opinion, was their demise mainly due to the market or was it self-inflicted.
11. In the Low-cost aviation industry within South Africa, there are two major players. Why is this case?
12. In developed countries, there are low-cost airports. If South Africa had to introduce such infrastructure, would it (1) encourage more players to enter the market or (2) increase the market sixe?
13. What are the main challenges facing LCC's specifically and are there any elements in the business model which could assist the LCC in dealing with the challenges.
14. I have noticed that LCC usually charge extra fees for services provide on full service airlines such as food, baggage allowances to make extra revenue. From a cost perspective, what common practices are performed by LCC's to lower costs?
15. I have noticed that Mango is a subsidiary of SAA which acts autonomously, Kulula on the other hand operates as a trading name for Comair just like British Airways. What advantages or disadvantages are there for a LCC operating as an autonomous subsidiary when compared to just a operating as a trading name?
16. So should a LCC that wishes to operate in South Africa be affiliated to a Legacy Airline?
17. 1time were an autonomous independent company, do you feel that there independency could have contributed to their demise.
18. Are there any market forces which hinder a LCC's capacity to operate?
19. In a full service airline, load factors are used to determine whether passengers are being spilt. Within a low-cost airline, are load factors used for the same purposes?
20. If you had to start a low-cost airline in South Africa with the intention of making it sustainable, what would be your:
    a. Your logic of value creation
    b. The method at which you would generate revenue besides the basic service
    c. Source of costs
    d. Method in creating value for customers
    e. Position in the value-chain
    f. Key Resources
    g. Key Processes
    h. Customer Value proposition

APPENDIX C: Interview Transcripts and Notes

INTERVIEW 1	
Interviewer	Dumolwakhe Denga
Respondent	Barry Parsons
Duration	95 Minutes
Nature of Transcription	Interview

Interviewer: I just drew up these questions. Some of these questions, I think if you saw them, they're kind of – some of them are a bit outdated because when I drew them up it was quite a while back.

Respondent: Only a couple of them. Otherwise they're all still quite relevant.

Interviewer: Okay, so I mean with regards to the first question, so what's your, this one's not in the questions. What's your involvement with Mango when starting up – can you explain that, elaborate on it?

Respondent: Well, Mango let's say in about 2005, early 2005 SAA realized there was something wrong with their business domestically and it was basically four years since the first low-cost airline started here. So they knew something was wrong but weren't quite sure what was wrong, because all the reporting they were getting was showing market shares were holding up. Passenger numbers were holding up, revenue was holding up, but there was something wrong, and these guys were running all over the place. And what they weren't sure about but had confirmed was that there was a group of consultants from the Centre for Asia Pacific Aviation. I was one of those, so they thought they would start a low-cost airline. They had this sort of idea that they weren't quite sure why, how to go about it. Of course no one had started an airliner in SAA for 72 years. So there was no skill in how to start an airline. And we came in and did some analysis and sure enough there was something majorly wrong with the domestic market. SAA had lost about 20, 25% domestic market share, without really noticing it. Because they had been very busy running their full service business at the time and the new entrants Kulula and 1time had come in and grown the market, but SAA had not participated in the market, because it was all direct selling, it was all low-cost, all sensitive. Those were people that couldn't previously fly. Around that time it was only around 12 – 13% of the population who had actually flown. Very low. So basically we came, we brought the, effectively the Qantas Jetstar dual brand model. We brought the Air Asia unit cost structure which was the lowest in the world and we overlaid the Virgin Australia service culture across it and its mandate was about affordability, and accessibility and you will still see that that come through today, when Mango presents to the minister of transport, when Mango talks about itself in the media. It's got this mantra about affordability and accessibility. So affordability and the winner is the one with the lowest unit to cost production. So the supply side of the business.

So that is Mango. Mango is unit cost to production for available seats is about half of SAA. It's lower than Kulula's, and it was much lower than 1time and it was lower than Nationwide's actually at the time. That was another airline, Nationwide. So that is the affordability. But you're going to have a lot of unit cost to production to put lower fares into the market. Which leads to accessibility? We did lots of market research. The fundamentals of starting an airline, you do market research. That's what you do. That informs your business model, your value proposition, network plan, fleet plan, etc. Grand design. It's a very unusual thing for the market research. There was a very low percentage of the market that's flown. And we would go and do market research. And we would go into places like Orlando East and just wonder round the streets and talk to people. You'd get some old grandmother and she'd say oh – I fly tice a year, I fly SAA and then next door we see them go past in the sky, so it was quite neat. Anyway so we convinced SAA that they needed to start their own low-cost subsidiary to actually fortress the market against the capital growth of the 1time and Kulula but also fortress it against new entrants. And the fortressing has worked very well. So Velvet Sky has come and gone, 1time has gone.

This is not because Mango has done anything competitive. It's just that it's run its business very well. Discipline. Its unit costs for production is very carefully managed, and therefore it's priced very well, got outstanding distribution, innovative channel. So that accessibility is not just can I afford to buy an air ticket in this country, how do I buy it. I go to Shoprite Checkers, I whack it on my [Edcon] card. So there's more Edcon store cards on issue in this country than there are credit cards. We did a very very detailed review of how to sell. It's not just pumping cheap fares out. That's what they're doing internationally – they're pumping them out into markets with up to 88 – 89% internet penetration rate, incredibly high quality broadband and low broadband costs. So everybody can just go and buy the ticket on the internet. You can't do that here, so you can go into Daveyton Shoprite in 2007 and buy yourself a Mango ticket.

Dumo: Yes, okay. That's the main focus, how to sell it and the price as well.

Respondent: So if you've got one without the other. If you've got the price, that's probably better than just having the distribution. If you've got the distribution and it's expensive, I can't afford that, and the others followed Mango into that space. Kulula, 1time, they all craved distribution through retail stores.

Dumo: I think you answered the first question you had what type of value intended to be created or delivered within the low-cost airline and I think what you've mentioned is that it's the price, you want to make it affordable to consumers, you also want consumers to have accessibility to your products, how to buy, that's the main focal point.

Respondent: It's an unbounded product, so that's the key. Full service airline is a full service airline, so not the illusion, we are low-cost, you unbundle everything. You just start with the fare, and then everything else gets valuated in. We created a product, so Mango started in 2006 and by late 2007 we thought we can capture the SMME market. No one's focusing on that. It's not the big corporate, we thought there's lots of young black budding entrepreneurs who can't fly. We can see the boarding the airplane, we can upsell, we can create a slightly bundled product called and that gave you there the base there, which had no flexibility. So you had the liquidity, if you want to change it you can change it but it's going to cost you maybe more than the fare. So we got the base fare and said okay we'll add in lounge access so I went out and did the deal with BDNA. We added a voucher for onboard food. We added a pro seating. That was a bit later actually. You got the actual price and paid more for this. You got something before you boarded and you got something after you boarded. We created a product called Mango Plus. Now that's sort of rebundled stuff. Now, about a month after we did that easy jet launched a similar product. Not because they watched us, just because it was a good idea. South West launched one maybe two years later and I see Ryanair launched one maybe last week or the week before. Even Ryanair, the guys who have stuck to the bottom of that food chain. It is a food chain. You've got, at one end in Europe you've got British Airways, and the other you've got Ryan, you put it like this, and what happens over time low-cost airlines trade up the food chain. They add products. So Mango's got more complexity now than when it started. It's got unit costs. So they trade up the food chain. So Mango's more of a hybrid airline now than an LCC. A lot of low-cost airlines have also changed the terminology. Low fare airlines.

Dumo: So basically there's another opportunity in attracting SMMEs and rebundling your product and creating new ones, basically. So that you can also attract them.

Respondent: There is a demand. So instead of them paying say R699 one way to Cape Town on the cheapest fare bucket they might pay R999 because they can go and work in the Bid Air lounge for three hours and have a meeting in there with someone. When they get on board they don't just spend R50 at the spaza. That's sort of how it works. Now Mango has developed other products, but that was the thinking. Mango's got to the point in the market where it doesn't call itself a low-cost airline. It doesn't necessarily – a low fare airline. I think Kulula's probably a low fare airline. The low-cost airline, LCC, that was terminology made up by people like me. I'm an economist technocrat type Even though I worked a lot of marketing, that's my roots. I 'm a supplier sales person and the US Airlines have caught onto this. They went through phases of bankruptcy, exiting the market, emerging force and not force and they're also [unclear] because they've got capacity discipline about how many seats they put in the market and the cost they produce them at. They sorted out their supply side. Go and chase market share. There's a saying in aviation you can't take market share to the bank, so it's true. There's a lot of other sayings in aviation, but that's a good one. You can't take market share to the bank. And in the case of SAA in 2005. They'd actually lost 25% of it and didn't even notice. So that's the story of how Mango got created and the SAA board at the time had the foresight to say we agree with that's the way to go, because if we don't then this is just going to continue. And there will be no SAA. It won't just be Kulula and 1time, it will be someone else, someone much better will come in. And SAA's domestic business will be shot. What we didn't really brief at the time, is that the international business will never make it, [unclear] regionally it will eventually come under attack even though the regional network is its most profitable kind of business. IN fact in 2005, it was hugely profitable. But it's only a matter of time until competition like Domestic can reach it. If they didn't keep the domestic core and a new entrant came in in LCC and the regional competition increased SAA's business could be wiped out in three years. It wasn't just like I'll have to speak to the domestic business. It was actually a fundamental cause of it. You never had this discussion with the competition but its prevented other airlines coming here. Competition law purists don't like to have those discussions. Think Nissan and Hisense and Great Wall Motors. If you think they're not trying to make sure they have the strongest market position possible and to stop someone coming into their target market, this is about – it's not unfair competition, it's not unfair competition to run your business as well as you can, so Mango by running your business as well as you can you fortress the market.

Dumo: Okay and with regards to business model, how would you define that, an economist, from your point of view –

Respondent: The best way - Mango is, I would still call it a low-cost airline. Mango is a low-cost airline, from affordability, accessibility for the South African and increasingly regional markets. It's already operating to Zanzibar and looking at other regions. It's acquiring other aircrafts. Mango started with four aircraft, now it's got 10. IF you go back to the original business case, there were two business cases etc. One called Launch case which was four, and one called Grow case which was 10. The 10 was to be fed in, after about five years there was ten. What's happened is it's taken about 2.5 or three years longer than anticipated. But now Mango is great. So a low-cost airline focused on affordability and accessibility in the South African and increasingly regional market. That's not a value proposition or a pay off line. It's just, when I used to brief people on Mango's business –after Mango started in November 2006 I stayed on as the head of commercial – so I'd go and talk to groups, government groups and pilots. What I said then, I would have to fly, with a little bit more detail. Unit cost production, a bit more - if they didn't get that, the next slide would be a picture of a big mango. Mango's initial model was use big mangos, just churn them out, you want a variation, you want a variation, you want an apple pie, you want a bigger cut, it's going to cost you more. All it was, the lowest level in the aviation food chain if you like, use the model food chain you've got that. Mango's come up that food chain. As have many other airlines.

Dumo: The profit structure, the profit formula if you had to construct one for any LCC or Mango, what would you include it in that revenue. What are your sources of revenue and of cost, the main ones?

Respondent: The unit cost formula is for a low-cost airline. This is not a long haul low-cost. Separate discussion. In its purest form about 60% of the unit cost production in full service to LCC comes from two things. One is hire aircraft, the second is greater assistance. So you've just got a 737800. To lease one of those costs about US$220 - $260,000 a month. That's your fixed capital cost. If you can extract, if you're operating at 9 hours a day with 157 seats as opposed to 13 hours a day with 186 seats in the second version, the LCC version, you've produced much greater productive capacity from the same fixed capital cost. That's essentially the supply. The next is distribution. If you can sell a ticket for far less than the legacy airline and that's where Shoprite, Checkers come in and direct selling through the internet. That's where that comes in. Otherwise full service airlines are selling through travel agents, attract costs like in the day. There's also a cash flow benefit. I will get to that later. On the revenue side, you've got to have your capacity schedule network, totally in line market to market and that optimizes the chance if you've got distribution and the payment method construct of connecting the target market, and selling revenue. Your revenue to available seat km ratio to the cost per available seat is the fundamental delta. As it is with any airline. There's a difference with LCC if you just compare Mango with SAA. We sell a ticket from Joburg to Cape Town with SAA right now and that is for Friday, I book that through a travel agent. We deliver the service on a Friday. WE get our cash through the bank settlement plan maybe in a month. Mango sells a ticket to Joburg and Cape Town on Friday, it gets the cash today and delivers the service later. What that does, it creates a massive shift in the dynamic of cash flow. LCC has a cash flow dynamic. It's a wave of cash that just pushes through. In times where the propensity for air travel, roughly tracks the GDP rate, and if you look at results yesterday – that had a 4% reduction in volumes last year. So make a direct comment about the same thing. WE always see air travel to a degree. So That cash in normal times when GDP keeps increasing. The only time this hasn't happened is in the global financial crisis in2008 otherwise in the whole history of LCCs which is basically 15 years, there's a few variants before that, there's been positive GDP growth globally. Now what happens is the airlines follow the best example of this is Ryanair. You get that wave of cash and the cash advantage an lc model has you use that to fund your next fleet acquisition ND you just grow your fleet funded from operating cash flows. You don't have to borrow much money. So that's another big advantage so once you've got it dealt with an LCC has got its direct selling model, generates this massive pile of cash. When you see the operating, new airports opening, suddenly there's a new bilateral between Europe and Israel, then Ryanair can pour capacity in and you need three more aircrafts to do it, you just dip into your cash pile The only time that never happened in 2008 where Ryanair started cancelling fleet orders we could see it was very prudent, we don't know how long it was going to last. Demand is flat, we're not going to grow business, we're not going to get that traditional cash report, - and that's what Mango does. Mango has done a brilliant job. The other thing Mango is very good at negotiating lease rates at much better rates to SAA. You might get an aircraft, the same aircraft as $30,000 a month, [unclear] achieving what's going on in the market, opportunities coming home.

Dumo: Alright. In your opinion, you've mentioned the key resources and the process. You've mentioned new airports. I was actually reading an interview with [Eric Fence] which was done last year. What he stated with regards to the market, he says there was not enough low-cost airports to really support this type of markets. With the introduction of low-cost airports, airports maybe like Lanseria in more strategic places, would that make the market more viable to pursue, or would it improve anything.

Respondent: Well first of all people overestimate how big the South African market is. The South African market is not that big. It has one major route, Johannesburg Cape Town domestic but it's not good for secondary airports. Lanseria is a good airport. When we were starting Mango I did an evaluation of Lanseria if they would support Mango. SAA took the view that Lanseria's not going to work. Mango is not meant to have connecting traffic. It doesn't need a hub, it can make its own. Lanseria airport developed considerably since then, I had a guy who was an expert in secondary airports in India. He said Lanseria is the best secondary airport opportunity I've ever seen. They took the view that it was a bit low brow. I think that was a mistake. Mango eventually got in there. Unfortunately they didn't get in there first. Comair got in there and then Kulula. Then 1time got in there at the same time as well. The cost associated operating with Lanseria is way above. That would have been helpful I think Mango could have created a business, and given that Mango had remained for so many years, I don't think it would have done any harm at all to be out there. They could have stared an operation with OR Tambo, instead of the other way round. Now there was just not a supplier of secondary airports in this country. We looked at Waterkloof, Wonderboom, Virginia. Loads of secondary airports. We looked at Midrand airport, we looked at a range of airports. They either had runways too short. A few things like that. So in my view Lanseria was better option from the start. My view the head office in Mango should have been taken. If you look back they are actually quite minor things. The fact that the SAA board of the day could accept that they needed to start a new airline. I look back, quite frankly, SAA has done two things successfully, strategically in 80 years, apart from starting itself, it started a low-cost airline and it joined Starwell. The only other strategic measures they tried have all failed, so if you actually look back in the 80 year history of this company, the board of 2005, starting a low-cost airline, that's pretty gutsy. Well they were just guys, and you have to look back and say probably a bit of a visionary you could acknowledge where the market was going to go. Secondary airports they don't really exist in this country. If you look what's happening in Europe, Ryanair and Easy Jet, they're actually, they're still in the secondary airports, starting to move to the principle airports so there's a trend. I used to study secondary airports here and Australia. Europe Australia Asia. Some are successful, some are not. Lanseria by world standards, that guy was really impressed with it. the management of Lanseria is really good. So I don't think the secondary airport thing is really a consideration here.

Dumo: The main challenges facing low-cost airlines today. In your opinion what would they be?

Respondent: You've got to look at low-cost airlines, are facing – what they face is that some of them age, the cultures age so the original teams that set them up, had all the experience and discipline, they can sometimes go away. One of the best celebrated cases is Jet Blue, which was launched with a great success, then the original team that built the thing just ran out of gas and the airline, essentially melted down. Had massive service failure. Had well documented things you can check. They had one case where I think some of the cabin crew were so tired of being unable to face the customers who were locked in aircrafts because of operational failures. I think one of them pulled the escape slide and popped down on the tarmac and just walked off. So they got pretty extreme, and the shareholders said we're going change this. They're very celebrated studying customer service and they've become quite famous for it. That's one of the challenges, you start an airline and after about five or six years, the original team has either lost energy or gone or did something wrong. Sometimes you can run an airline and you can be the best aviation executive in the world, the nature of the industry, events just overtake you. The global financial crisis was never going to kill Ryanair. It stopped its growth but there's other thinks like Egypt Air. If you look back 3 – 4 years Egypt Air had become a larger airline than SAA. But then the Arab spring came and it wiped about 80% of the business overnight. You can't sit at Egypt Air headquarters and plan for that. Volcanic ash clouds, Ebola virus in West Africa at the moment, Cathay Pacific. Regulatory change, it was the low airline of Hungary. Hungary joined the European Union. State subsidies for airlines were illegal. They liquidated in a couple of months. That caused Whizz to go from being an okay airline to being quite substantial because their subsidized full service competitor was gone and now Whizz has done a listing on the stock exchange. Become that successful. So, a challenge is seizing the opportunity as well as just making sure you don't get run over by a truck. So now the guys at Whizz could have just said we'll go and have a few beers tonight because now we're able to sell more tickets. Someone else went no now we'll be able to increase the size as well – so challenges are adapting to changes in market conditions. Could be the exit of a competitor, the entry of a new competitor. Mango, Kulula and 1time adapted to the entry of Velvet Sky, even though they knew it was not a good airline. You don't have to be a good airline to come in and disrupt a market. You can just come in and spend what money you have and exit, and that disrupts the market.

What you've got now is with the exit of 1time what you've got a very harmonious situation where everybody's making money. Last year [unclear] had got that licence, that would be different. [unclear] going to enter the market, it's going to impact the market. So that is a challenge they have to respond to. Increases in regulatory charges. A LCC to fly from Joburg to Cape Town, you still get the same charge from AT and F. Traffic management You still face the same airport chargers from ACSA, security screening charges, passenger chargers. So regulated charges from state monopolies or from, what's the best way of putting it. You've got monopoly market constructs but you've also got constructs of monopolistic competition where you've got three providers that allow things by ACSA, say ground handles and whilst they compete they compete, they compete and there's other things that [unclear] for a few participants, they create a monopolistic competition submarket, so these are all challenges to LPC. There whole business model is based on a low unit cost production, but if that would turn around an increase that their charges by 125%, it does impact and suddenly LCCs don't comparatively [unclear] but they're not nominally. They cost more than R1,000 to Durban well I won't fly. We do a lot of work with Mango, on really relativity, taxi and bus fares and trains, which ended up a non-issue. It's not an intermodal, a lot of transport economics goes into starting an airline. A lot of people don't see that. I'm not a transport economist. But I've got a pretty good grasp of the principle. Joburg Durban, if you've got a car you'll driver there on 7 hours. Just on the borderline of flying.

Dumo: If you go to 1time's exit, were some of the challenges you mentioned, you could start an LCC and the market forces could be so overwhelming, that the business may not be able to survive was 1time a case of that?

Respondent: Apart from some external factor, Airlines fail because they run out of cash. They don't fail because they don't make a profit. They run out of cash. So 1time, I don't think was much of a brand, first thing and second thing they had very very old aircraft. Whilst they would have a low asset value, so they had a very low fixed capital cost to production they burned a lot of fuel. Very high variable costs. 1time was an airline that had a very high variable cost equation and it was all around fuel. Now, you track, the price, 1time got in trouble from about 2008. In about April 2008 [unclear] 100 a barrel, 99. Something, 147 in July and back to 100 in November. People thought isn't that a terrible thing for the aviation industry, it's going to wipe everyone out. What it did was it weakened balance shares, it also caused massive hedging values, united which didn't impact 1time, but – so yes that weakened, that caused the depletion but the biggest problem was from early 2010 to about early 2013 there was a sustained period where grant was above 120. That was much worse. That was , they could not price into the market. They couldn't get the unit revenue to cover that so they just used cash and in the end, they ran out of cash in the end. They got to the point where the founders of that airline, this is a lesson about running out of gas. The founders thought well if we keep going this way we will lose our houses and cars. They tried to pile a lot of, they had the Aurora guys in at 1time- and then they tried, they did an empowerment deal and the founders left and got this new CEo. He's quite an honest type of guy but never going to stay with the airline. 1time, they lost relevance in the market as well. If they had a super brand and they had old aircraft that worked, they would have got better revenues. Almost all the low-cost airlines they have new aircraft and spread the assets really hard to produce more productivity. There's an airline in the US called Legion, a good case study, that you need – let me send you some stuff. I sent some stuff on the latest airline business models.

Five case studies, one of them is Legion is they have really old aircraft. They hardly fly them. Only 4 – 5 hours a day. They position themselves in secondary airports and they've created market value but they've done it in the US and that's not like the rest of the aviation industry. The US is a very specific market, operates in a very specific market conditions and rules. .

These are not rules made by the SAA. These are rules because of the scale. Because of its geography, even its weather. It's got very specific rules. The Legion guys have found a way to make, it's sort of like a version of 1time that actually works. Old aircraft they don't sweat the assets much. Even though 1time spared the assets, so 1time was potentially the right airline in the wrong place, but it shook the market up here. I would say the personal wealth of founders would have been quite good. Mango's introduction was pretty much the end of 1time. It was just a matter of how long it would take.

Dumo: You mentioned a cash factor, just wondering do low-cost airlines really need a lot of partnerships with other maybe not airlines, but other businesses. To keep the cash flow.

Respondent: The clever ones do. Some of Mango's partnerships. Vodacom. Mango was one of the first in the world to have wireless internet on their aircraft. Mango didn't pay for that. They partnered with some other that would put up the capital expenditure –

Dumo: So just clever negotiations. One thing that was going around the media, what people were saying, the reason why Mango and Kulula on the other hand, full service airlines and they say that impacts their sustainability in the market. I was very skeptical about this. Your view on this, affiliation with the full service airline, and it help does it help –

Respondent: They're different constructs. [unclear]. In the Cape you've got BA and Kulula. I don't know about right now, but for many years, you could buy a Kulula ticket and end up on BA aircraft – now there was no separate reporting of Kulula's performance, no separate reporting of Kulula's performance. No real segregation. It's more a blended sort of, I think they do now, but they didn't have an income statement and balance sheet for Kulula, so it's not a virtual brand, it's a real brand and has real metal and if you look at where the, now you're doing the fleet replacement and expansion, bring in some 3700 new generation aircraft, it looks like they're all going the Kulula brand. That's where the greatest return of capital. I have a very strong opinion on BA. To me BA is a colonial brand and has no business here. It's only a matter of time, a year or two or three, and Comm Air will be smart enough to come or BA will cut it. They will do something. BA is a franchise agreement and part of that franchise agreement is to [unclear] – Mango on the other hand was set up and people at SAA always take this the wrong way but it was set up in a totally immunized legal and regulatory and financial framework so it would not be contaminated by its culture. The current CEO takes very strong exception to that. But if you've got one business that's been substantially cash driven from day one and is significantly cash positive fulfilling its mandate and you've got another business that loses a lot of money and is substantially cash negative, it makes perfect sense to keep it separate. It is now becoming more commercially – there are code-shares between Mango and SAA. The LTTS proposed an integrated airline. That's not about putting the business, it not a merger that is making sure decisions are made. You've got S AA, Mango, an integrated airline group. It's about capital allocation. The efficiency of the shareholders capital to make sure Mango is not running over the top of SAA and SAA is not running over the top of Mango and they're not competing with each other and destroying shareholder value for not optimizing the deployment capital. The trouble is there are just too many personalities involved, so that hasn't come to fruition yet. So that's the principle of Mango. And that's stood it in great stead. It has many things separate. Both use SAA and [unclear]. Mango has a separate company secretary. Mango has its own same board. The CEO of Mango does not report to CEO SAA. He reports to the chairman of the Mango Board. SAA is 100% shareholder of its subsidiary has its representation on that board. Separate engagements at all levels of government and stakeholders. Everything is separate and that's why it works, it doesn't have the legacy baggage which we're trying to fix and some areas are going better than others but some areas are going backwards. It's totally immunized from SAA whereas BA and Kulula that's not the case. There's probably a BA pricing guide and then on the other side a Kulula pricing guide. That's it. I'm not saying it's a bad model, I'm just saying it's a different result. Otherwise, just look at Comair's result, could they be running it better if it was all split. I don't think so. I don't think in their culture it's important. In our culture it's massively important. That's the way we used it. We used very strong language around that, contamination, immunization. It stood mango in great stead.

Dumo: While you were speaking, all the questions I had, you were answering them. If you had to start a low-cost airline in SA, obviously with the intention of making it. what would be your logic of value creation. You mentioned that already but if there's anything different –

Respondent: I wouldn't start one now, because if I really did my homework, if I was an outsider, I'd look at Mango and say that business is working I'd look at Comair and say they're deploying all that capital. Two firmly entrenched competitors, the domestic market is not big enough, GDP is declining, one quarter – just all the indicators are wrong. Now I can tell you that despite that – this is a very special case. They have operated in this market for years. Charter operator. They know the market and operationally they are very sound. Whether they do ultimately fly, they haven't started yet, whether they ultimately start flying g, but they will make a similar impact as Velvet Sky. They will change pricing behaviour, do lots of things, there's a competitive response to the entry. But the big thing is how deep are their pockets. So Mango has a massive pile of cash. Comair is well funded. So they are going to need some serious money for a long period. You can't just come in and it's all over in three months. You can't do that. You've got to come in. On that, so it's a very unusual plan by SAFair to start their own LCC operation. Will it be successful – it depends how you define success. In a business like Mango where you've got affordability and accessibly their mandate is also a national development agenda. SAFair, they're owned by a bunch of Irish investors. They don't have any interest in our national development agenda unless they can make a buck out of it. It's the same with Comair. You think the Comair board sits over there talking about enterprise development and socio economic development – probably not quite sure what that is and SAfair the same. They'll run the business on commercial principles and get on routes where they think they can make money. But if the average fare from Joburg to Cape Town is R900 after Flight SAFair enter it will be R725. Can they make money at R725 or have they done all their projections on R850 or R900. Who knows.

Dumo: With regards to long-haul, I read this article on LCC entering a long haul market. What is your opinion on that, is it a viable thing –

Respondent: Yes, it's the next big thing. The next big thing for us here, in airlines is Turkish Airlines. The next big model is low-cost long haul. Basically every major development in aviation or almost everyone comes from Asia Pacific. That's where I went to school. That's where I really know -I'll send you one of them is the low-cost long haul thing. It was tried, forget like 30 years ago. So low-cost long haul was first tried in about 2007 / 8 and that was where Air Asia and Jetstar came up with an international variation and one of the problems is you don't get that unit cost compression that you get in the narrow. Long haul airlines already had high utilisation of aircrafts and one of the best utilisations is trans-atlantic like a Delta or an Air France. On those routes they're getting 18 / 19 utilisation a day. Which is pretty amazing, otherwise it might be normally about 14 – 16. So you've already got that in full service airlines. You don't get that break when you go to low-cost. You get distribution, labour, all those, but also it needed, the Jetstar international did okay. Others came and went. There was one called Hong Kong Air, Hong Kong Express, came and went within two years. What's happened now is the A330 has come along and the 787 800 and 900, they've being bought by low-cost airlines, so the new engine and airplane model have come through that now make that model and it's all happening in Asia. The only exception to that is Norwegian Air Express, otherwise it's all happening in Asia. Airlines like Air Asia Ex, Jetstar international, Scoot, which is a Singaporean outfit. Probably the main ones. Now Sea Blue Pacific, Philippine. So you've got that and what you then create is interlinking hubs. You integrate wide body low-cost long haul with short haul low-cost narrow bodies. In Asia they're developing airports for low-cost airlines. So airport terminals with a very high percentage of connecting traffic and that's the big change. We'll see that in one of the slides. So Sea Blue Pacific I think this week they started a service Manila Sydney so about A330 all economy move out 300 seats. Then they've started Manila Ria, Manila QA City. So there's a very large Pilipino Diaspora.

So if you go to QA city its full of Philippines now they have to go home and try and get to Dubai, get to Emirates. [unclear] and those Philipinos there, now they can go back and forth, we can put a seat into that market, they can afford, now I've spoken to the Sea Blue people, that's exactly their plan. Scoot, they're partly owned by Singapore Airlines, based in Singapore, but there's an airline called Knock Air which is a narrow body low-cost airline in Thailand which is partly owned by Air Thailand. They've now even got a JV called Knock Scoot. They're seeing the potential for the knock connecting with the wide body Scoot. So they're creating their own little thing. That's the next big thing. Will low-cost long haul be successful. I bought a ticket last week for my wife from Beijing to Melbourne. It was Cathay Pacific via Hong Kong, one way was about US $2,800. China Southern was about $1450. Air Asia ex via Kuala Lumpur hub was $482, so do you think people are going to start buying, that's low-cost longhaul. But you can also low-cost long haul in Australia to Sydney, Melbourne, Gold Coast. Actually Perth is narrow body. So what they're doing is they, the best low-cost airlines in Asia are also coming up with wide body variants.

But you've got to have the airport infrastructure to really optimize it, so KL International airport they built a low-cost seminar. They did an assumption when they built it that 60 – 65% would be connecting traffic. Which at the time were told were mad, low-cost passengers don't connect. They're going to get a flight from one place and go to another terminal and get an Singapore airlines flight and that's just not the case. Low-cost passengers just don't connect traffic. One of the things we learned early with Mango, you know someone will just trawl around on the web for hours to get R300 off a fare but they will just get on a hotel and take whatever price they get. Early on we learned consumers make a much more detailed scrutiny and effort over obtaining the lowest fare they can in this market. When it comes to the hotel or car – and the other lesson I knew before I came here is low-cost airline passengers will stay in five star hotels.

Dumo: The perception is if it's low-cost they think people flying them are low class. That's not the case.

Respondent: There's a very large collection of those students, but there's also some guys sitting there quietly with smart clothes and a laptop and he gets out and he stays in some wonderful hotel in the waterfront in Cape Town.

Dumo: With regards to the value, the business process that I put a little example of a business process, and then I said in which one would you take out, which one would you add in, just looking at that, what was your view on that?

Respondent: It's almost a complete fit, so the only one, I would take out shopping. We're talking, there's no sector longer than two hours in this country. I've done this in South Africa. What is crucial, I've ticked the ones that are crucial and crossed out the ones that I don't think are crucial. They're nice to have. A pretty close fit. The least close fit is in the inflight experience. I don't want to get on a flight and have them and the staff be totally indifferent. That's the big difference between having full service catering on a low-cost airline, that's a big gap. If you want a drink and hit the cart, they're going to come down once, first of all there's no time to go twice You come down once, buy a coke and a packet of chips and you pay, that's the product in a bun, and if you don't like that, you can buy that product, Mango Plus, we'll just come down Ah you're a Mango Plus you just show them your pass. What would you like, Chips, coke?

Dumo: That's very interesting, I think I've gone through all my questions.

Respondent: It's substantially, similar, but unbundled. There's also an illusion crated, you've got $100 million and do you invest it in a full service airline or a low-cost airline. I'd say the R100 million low-cost airline and I have completely unbundled product and I offer them all the value adds through directly selling challenges and people say oh, I want a lounger, I want a – they get what they want, and that's 46% of full services my 100 million I could have invested there. So that's why low-cost airlines attract professional investors, because there are commercial rates of return for your investment. Otherwise roughly 60 years that they tracked airline financial performance, airlines don't recover their cost in 60 years, and they have a profit margin of just under 1%. So if you had $100 million, would you invest it in a full service airline, or quite frankly any airline, or would you walk to ABSA and get a deposit. You invest for other reasons, I invest $100 million at the end of 10 years, I've got $112 million. Then what I set up and sell what I set up and ran for 100, I can sell that for 900– so there's a bit of capital appreciation there. Not for professional but for other investors, other reasons, government or pension funds. They still invest in full services. Sovereign wealth funds.

Dumo: So basically governments will use state owned airlines. Have development plans in place, then maybe they will be crucial in that, they won't see I'm getting so much money out of it, I'd rather invest so much money, so many jobs would be created – to society.

Respondent: People confuse flight airlines with state owned airlines. Once upon a time flight airlines were all state owned. So I don't know how many times, [unclear] I was talking to a guy from the department of transport and he was a very senior fellow and he said what do you think's going to happen? Do you think the government will sell it? I said the government sold it in 1995. Our new minister did a media release 3 weeks ago and she was asked about privatizing state assets talking about Eskom, and she said we need to look no further than Australia and New Zealand for successful models of state owned airlines. Air New Zeeland is 53% state owned. I was working for Air New Zealand when it was renationalized. The state owned about 86 – 87% of it. It sold down to about 53. So the other fallacy is state owned airlines are not successful. That's just not true. There are many successful state owned airlines. Most in the mid hemisphere section. But not all. Air New Zealand has been world airline of the world in the last 5 years. It's majority state owned. Singapore Airlines. 100% owned by [unclear]. [unclear[owned by the Abu Dabi Investment Corporation. Canada Airways [unclear] Emirates. Owned by people unclear, but basically owned by the royal family, state owned. And then the objectives of state owned airlines are not all the same. The objectives of Air Brunei which is owned by the Sultan of Brunei are different to the objectives of Fiji Airlines which is majority owned by the Fiji government and their objectives oared different to Qatar airwards, different to Emirates and they are different to South African Airways. So making money is not necessarily the objective. So in the case of Dubai the objective of Emirates is creating a six freedom transfer hub, which will affect the destination, and this was done because the oil ran out long ago in Dubai. They have no oil. Most people think the place has got oil wells in every street. They ran out of oil long ago. All the oil is in Abu Dhabi. They control 94% of the oil, about 96% of the gas, most of the transmission, most of the refinery, most of the extraction technology, most of the emirates, some of the other five emirates, so they have no oil. It's the ceramic capital of the Middle East so wonderful ceramics, you don't make as much money out of ceramics as you do out of oil One of the objectives of Emirates is state power. That's not an objective for SAA. That's why when I did the LCC report I said you've got to right back and look at the mandates and objectives, I was first told how dare you question, and after a while, only because I went round the board, said what do you think and listen while we're here, and the DG who is now not the DG, he's the CEO of Eskom, says that's what we need to do. What is the purpose and the former minister, and he is sending advisors, getting his advisor coming. He's got a really trick thing.

Why should the state own SAA. What is the objective and our number one objective, the dual mandate will have five strategic objectives. You've seen - our primary objective is to support the national and development objective of this country.

Secondary objective is to achieve commercial sustainability. That's defined as a net operating – profit and a positive net operating cash flow . That's commercial sustainability. Not a return on capital commensurate with the IDC are expecting from their investment in the new airport in Dakar. It's not the same. They're expecting to get a return on capital commensurate to recover the cost in capital as far as the return. That's not the intention here, but if you got o Singapore, in their very big fancy building down town they expect commercial terms.

Dumo: So it depends on the people,

Respondent: Another example is Scandinavian airline. They have three states who have the majority shareholding holding it together. Their objective now is to just keep the airline going. We need an airline. I [unclear] 100% owned by the investment [uncle] – so if you look at the GDP per capita top 5, Qatar, Lichtenstein and you've got Kuwait. Now the Kuwait investment, there's only one larger in the world, that's the Norwegian State Pension Fund. Kuwait has got so much money, the airways it's like it's there. They've got property portfolio in some countries that are worth 1,000 times what Kuwait Airways is worth, the amount of effort they focus on, they're never going to lose their share, so they've got a totally different objective. It needs to be safe and they need to maintain, first class they all want to fly first class. And keep operating. So you know you will see lots of things, I'm trying to think of the Kuwait, I will think of it soon. The Kuwait online news. Doesn't matter. Kuwait Airways, like SAA, every few days – there's a scandal – they don't care at all. Don't 'crash, keep first class and keep flying. Yes you're losing money but you're not losing a whole lot of money and you could be better. So it varies. The objectives here are very clear for SAA but they're not the same.

Dumo: There's one last question, and basically it's about cost advantage. So we're just going back to cost advantage and you mentioned to gain a cost advantage [uncle] and common fleets that helps a lot and basically – distribution costs –

the costs of selling, then there's labour. So you have the productivity based agreement, at risk, based on performance. It's quite different. So there's lots of, there's IT, lots of little things. They're all the big bites but having one aircraft hub is a driver of a few of those. That said there are LCCs that have gone to two aircraft hubs, none of them very successful, but it has happened. There's been suggestions that Mango needs to get turbo props. How that would work when the state owned SA Express would also have turbo props I'm sure. It' s a bit like every time someone comes along – well – this will make up for that $400 million speech. We can't feel them for the right years, so you do get that, but fleet commonality has been a cornerstone for ever. That's forever an LCC.

Dumo: Outsourcing services, that also helps?

Respondent: Yup [unclear] you can tell and this is where it's challenging with the service providers.

Dumo: If we had airports that weren't earned by ACSA, the LCC could negotiate better rates for example.

Respondent: I've worked these models elsewhere. I worked one with Jetstar a few years ago. So Melbourne's got an airport that's got no, quite a lot of aeronautical chargers. Very high aeronautical charges but very low, and they specifically, they've ego low aeronautical charges, they've got latent capacity and no curfew. Sydney has a curfew from 23:00 to 06:00. It has very high and relatively now non aeronautical. A new airport opened down the road from Melbourne. Privately held. Connected by absolutely leading edge global motorway. So Jetstar wanted to know the, the cost benefits. IN the end they operated from both. They were about an hour apart, so – they thought they were sufficiently. They did that for about three years and pulled out of the secondary airport. What the primary airport did was they changed the aeronautical charges for Jetstar to get them out of there.

Dumo: So they also compete.

Respondent: Yes.

Dumo: Just a few more, revenues also help as well.

Respondent: Yes, the other, one if you look at Allegiance, you might find an ancillary lead cable. I thought Allegiance had until the mid-20th Century. Ryan Air are about 18. Mango is four. You want to be able to look at what is truly ancillary. But I think the best one to look at Allegiance. It's simply the rebuilding of the product. It's important for people to get carried out. You're Allegiance, one dollar in four. You might find some private business review thing on it or a Wall Street Journal article on it. If you can get around Wall Street Journal's pay well, just Google was allegiance airline. Just try a few things, you might chance on something. Internal revenue is very important.

Dumo: Okay. Single class of service, we went through that. Two classes and then what names are they?

Respondent: There's low-cost airlines like Jazeera and Virgin Australia that launched in 2001. Single class, they now have two classes but they've traded up the food chain, to become a hybrid. Jazeera is a perfectly good low-cost airline and two classes can be a curtain, off the front three rows. Two classes. Mango's got new seats in the front of its aircraft. I'm pretty sure that they're the same one Swiss Air have on business class. It can be a different pitch, but you don't create a second cabin. And because you've got the labour agreement, then you don't create, if you're serving in front you get paid more. Create two classes in a separate way. There used to be virtual LCCs, airlines that didn't have their own aircraft. One called Snowflake that was set up by SAF. They put different seat covering on the back 8 rows and they sold those seats in a different model. So it was virtual and then they killed that. Otherwise there's low-cost long haul, premium economy. Jetstar international. There's lots of premium economy on low-cost long haul. There's usually tricks to make two classes, a curtain, different wall covering so there's a lot of things you can do to create the illusion of two classes. If you buy a Mango Plus ticket for example, you actually get seated in the first few rows. There's also that you can do to give the illusion of it. There's quite a few things you can do. So class has come into it.

Dumo: Internet bookings, within SA, we wouldn't say internet bookings, partnerships with third parties, to maite it easier.

Respondent: If you talked to Pumo you'd have to ask her that question. She'd have the latest data. I'm thinking 20% of the sales through Shoprite Checkers. The other thing is you've got to remember the internet is just not enough yet. There's a culture in SA, can you get on the internet and book me a ticket, that t's not going to happen. If it's a secretary, maybe, but the same would happen if that was your secretary in Finland. So that's not much different. The other thing is that so internet penetration rates in this country are very low. I don't think people know how many people are in this country. Typically around 11.5 to 13.5 per cent. Broad band costs are high and quality is poor. If you look at the internet penetration rate of South Korea, or the Netherlands. Internet penetration rates of 88%. Broad band quality state age, costs, cheap cheap. So there a developed market. If you look at Malaysia, they've got an internet penetration rate of about 89%. They've got cheat and high quality broadband. You go out into the streets, the equivalent of a place on the outskirts of Britain. It's like an intersection with five houses and a shop. Some guy on a laptop in Malaysia, a young entrepreneur. Straight away the internet having a fantastic website and selling is not all. That's why we have developed the channels so they can connect with the market. Not just can I buy a ticket for R900 to Cape Town. How do I buy, where do I buy. We used to split, we said unslung, so they would sit there, they had some basic ideas. So how do you buy an air ticket, you've got to go to the airport? Totally understandable. Most of Mango's initial market didn't know how to buy an airticiket. So the Rustenburg Shoprite suddenly becomes a Mango ticket outlet.

Dumo: [unclear]

Respondent: We lifted some other ideas. An airline called, they got taken over. There's an airline called Air Decker in India that were outstanding with connecting with their market. We actually brought a lot of that stuff and when we did the branding for Mango, we sent that through. So it's the connecting to the market, do you know your target market, is improperly defined. Have you aligned your network design and your product design to it. An you connect so they can buy a ticket at the right price, that's what Mango's done. It's a critical element in anything. It's the same for Kelvinator. It's the same for Dodge, the same by Clicks Nothing new. It's just not done well by airlines often. Air Decken in India is fantastic. [unclear] bought a ticket to come and see and then there's been a journey of the ticket to the village. The taxi drivers turned up and then the grandfather gets chaired around the village waiting for the –

Dumo: Well then I think that's the end of my interview actually. It was actually a great interview. I learnt quite a bit. I learnt a lot actually. Just with regards to going forwards, are there any other people you would recommend I should interview, besides Phumla?

Respondent: Not on this topic. There's like no one on this side that would understand it. I'm just an aberration because I used to be there and now I'm here. I can't think of anyone else that worked with Mango. I worked with lots of airlines. There are a couple of former Mango pilots that become SAA pilots. They're not worth talking to on your topic. Nobody has ever come back the other way and the never will. Mango is a very interesting place to work. They're like Ethiopian Airlines, they think on Thursday and do on Friday. As opposed to here, the culture here, they think on Thursday and you might get diaries coordinated in a month's time. Before you even start talking about it. You just don't get people coming back. Phumla is good she wasn't around at the start of Mango. I was here in the first day a year beef it started with a clean sheet of paper, working out what do we do. We got nico involved after about a month and she wasn't around when the airline actually started. She's come along later but has been there now for six years and she'll give you really good. There are people who have more technical capability, where is what we're here for. She can give you more of a commercial flavour, a current commercial flavour. You might have some more specific information otherwise e it would be just good for you from a networking perceive to make a connection with her. You never know where you're going to come. She's probably, she's about the best. There's no one here who would help you with this topic. The only people I know would help they're either with Comair or in Europe or – I'll send a mail to Phumla today and copy you in.

Dumo: That will be great actually Barry.

INTERVIEW 2	
Interviewer	Dumolwakhe Denga
Respondent	Jahed Malik
Duration	45 Minutes
Nature of Transcription	Interview

Interviewer: Alright. I wanted to thank you for taking time out to speak to me on this topic and I hope we have a very constructive discussion, and I'm pretty sure we will have one. Because I just think that you're the right person to speak to on this topic. Just to say, just to start the first question.

Respondent: Can I introduce myself first?

Interviewer: Yes.

Respondent: I am Jahed Malik co-chairperson of Skywise and I'm allowing you to record this interview which you may use for the purpose of your studying, not any other purpose. What I would like to hear from your side, you need to caution what you feel about it, how you want to see the industry go forward, or you want to see what challenges this industry are facing and how we can deal with it. You can go ahead from now.

Interviewer: First question, with regards to a low-cost airline, what type of value is intended to be created or delivered? Is the value economic, is it social or is it something else besides what I've mentioned?

Respondent: Skywise's slogan is less is more. We will offer to the people or the consumer or the passenger less hassles in every direction, meaning that as a consumer what we want from our service provider, this report, whatever you want as a consumer, what we want, what services, value we want, so we're working on that, saying that people come first for us. Meaning that what we could be different from other people, are the carries running that. First of all I want to mention that our industry mindset for few, a good 50 years is no change happening. Every consumer wants to go buy tickets, sit and get, that kind of transport from one place to another place. When we came there we studied this business model. As you know we are business people, entrepreneurs. We say how we can add value, mean that we're offering a free cup of coffee, VIP treatment, red carpet treatment when you check in check out and most of on top of it we're very clear about that. Every passenger for Skywise is a key VIP. We want to give warm welcome. We don't want to, after door close, and flight takes off. We don't want to forget about you, we want to teach you like you were important. We're focusing on service, very importantly and what is missing between us and other airlines, service. It's not about you're offering cheap tickets. Cheap seats. It's all about adding value. We are focusing on our promise to all our consumers and passengers is that for us people come first.

Interviewer: Speaking about the business model, how would you define the business model?

Respondent: Entrepreneur. We have expertise and experience in our business and our leadership. We know where to follow the lines. Bring the change in the industry. That is going to make us different from everyone else. And our business model is based on that. How to bring people to the seats. Especially those people before. And out of, what we forget about it, a lot of people, is very shortage of – in a public, a lot of people like we're saying, background in marketing ND sales, we understand what people want. What understanding awareness in a market is. They think flying is very exclusive. Very expensive. They've been and done that and we think people choose to drive from here to Cape Town, they think it's cheaper. When we have no knowledge flying is cheaper. So we're taking this education and secondly we're saying that time is key. You can't spend 18 – 24 hours on driving. You need to fly. First of all it's not too expensive, secondly we give you the comfort and more confidence, when you're going on business and everything you want to fly. It's the education we're giving to the people. People saying this is too crowded. It's too crowded, too many airlines. We say no we'll bring the cloud to the skies.

Interviewer: I did some research on the aviation group, when 1time, became, when they liquidated, you guys gave them an offer. Is that, has that materialized, or why did you go that direction?

Respondent: Let me tell you that when I was a young child, about 10 years, I had a dream to my airline and the dream was unusual dream for anybody. My dream used to be when I used to see airplanes I used to think I want to own that, not I wan to fly that. In 2004 I'm behind 1time. They were looking for the money and –

what happened I think JC, they went to JC Listing. So my bid was declined, JC Listing happened. If you go 1time, you will come to find out, right, then he was behind the time, 2004 – 2012, we were looking opportunity to get in the industry and when we were almost very close to get eviction, so some crisis happened, 2008. We went to everyone involved to say, then to doing new businesses. When the company went to look, 2012, to buy 1time Airline, so we came to know, it was a lot of legal obligations, it got to legal matters, legal structures they want to see companies dying more than to help them survive. The whole legal system worked against you. They want you can finish, dying, close the shops and as a business, everyone is going to breathe and add value, trying to turn around the company. This happened to 1time Airline, we were being the brain. We came across in our mind, our knowledge, 1time brand holding is not held by 1time Airline, is held by 1time holding, what JSE Listing, so what left the airline, so could not happen, we went to be 1time Holding. So we're in a process for getting 1time holding.

Interviewer: Are you at liberty to discuss what you plan on doing with 1time Holdings, or is that still confidential?

Respondent: No, it's not confidential. It's public knowledge – actually what we wanted to happen, we wanted to have a 1time listing then we wanted to really have that 1time name come in the market, but like we say that it was an exercise in 2012, GAC listing company requirement, the whole system, then you get a system they want to make you fail than to be – I will discuss more around that, I mean, just now. Right now I mean it took us two years, we almost closed, so while we were working for 1time brand, Skywise came on our plate, we took Skywise brand so now our plans have changed. What was two years before plan changed. Now 1time will only be new companies and will be service provider in the industry.

Interviewer: Okay and then now 1time is in operation. You guys are competing with Mango, Kulula and Lysafair. Three other air lines. My question is with regard to the root density problem, Joburg Cape Town. That's a very competitive route, as a company how do you deal with that type of problem. A price, how you treat the customer, where we should focus our attention -

Respondent: We're talking on behalf of Skywise. 1time and [unclear] are totally different. Different business model. Let's say Skywise. A lot of people asked this question why aviation industry. Why you choose to come in, there is one owned by government, one owned by the brand, Comair, one is Safair. Like us. Kulula and Safair, Skywise. I always say we are not competition with those people. We are in competition with ourselves. We're competing with ourselves to deliver more and more. Like I say, I mentioned earlier on, people want change in industry. It's not changing. It's still old school there. Old written books. Work with formulas. We're saying think out of your box. Offer something unique to your customers. Do not treat them like a piece of crap. You cannot just – I'm sure you're flying as well. They you buy a ticket, then they teach you like how, you don't want to fly, you want to say you bought a ticket. Why you' treating that way. So we don't want to give that. So we're saying our competition is in ourselves. What is important for us, people think they have extra help, like men who have – it's government and government, because of British companies and then Safair is, I will talk about Safair again after that. Mango. SAA is fighting for [unclear] so they don't worry about who is who. They have to survive Safair before they can fight against anyone. And secondly we are saying that if any of them coming to fight against us come to price they have 1000 seats to offer every day. We have 100 seats to offer. It doesn't make sense 1000 seats to fight 100 seats. Secondly, consumers want change and competition in the market. So we say, so we really true people airline in industry. We don't make a mistake. We didn't come to lose money, we want to make money. But what we're asking about consumers, our success is your success. So make sure you become successful. Consumer need to understand very clearly on top of it. If somebody comes behind us and fights, on behalf of what, consumers don't understand. If any airline company behind fighting with the business model, hoping that money comes over. Not them. They're going to bring [unclear] cheap price. After they beat somebody else they will bring somebody else. They charge what they were paid back so the education must go to consumer, is saying any newcomer is a success, their success. Because they have choices. I tell you one example. I was flying from Maritzburg, to Maritzburg. And I bought a ticket. Did you know Maritzburg is more expensive than Durban is. You're paying R1200 maybe from here to Durban but Maritzburg you will pay R1800 – R2000 one way. But I bought a ticket and I'm talking about travelling, they told me. I said but I paid, I have checking you're offloading me, they said but the wind is not right, we cannot carry 22 passengers. I told them but you can't offload me. They said you want to fly or driver, your choice. So I thought oh my god, they're right. Drive or fly. I didn't have a choice. Same thing like at Telkom. You ask about your account, they're saying hey I cut your line, for what reason you cut my line for, because they understand do you need them, they don't need you. No competition. So when you have a competition like Vodacom gives the same shit, they cut your account, they don't give you service. Do you have a choice, no. Today we have a choice. You pick up the phone and say I'll go to MTN or Cell C. So the consumer is very important to guide us. To stay with us to see our success for their own management.

Interviewer: And then with regards to the proffer from LCC.

Respondent: Again we're saying here privately owned company. We have a lot of pressure among management, we're not appointing everyone, so we are holding very tight. So everybody working 24/7 is not that, that is really key for us at the moment. Our expenses are less. There's a lot of work. And again, what I look at in this model. If you run by any big organisation, you will have 10 departments in one department. Even if you're getting better rates, suddenly, I mean on a lease or on a fuel or anything else, first of all it's not different, I'm buying less fuel than somebody [unclear] but in a market [unclear] all is keys will link you to expense control. That's basically what we're working on.

Interviewer: So it's about controlling your expenses -

Respondent: And we'll be aggressive, include our marketing and address – bear in mind, it's not about selling cheap tickets. It's about adding value. And we want to use this model as a restaurant service kind of model. But to bring it to our aviation industry. When you go to a restaurant if somebody gives respect, you don't mind paying extra money for it.

Interviewer: Exactly. Because they're treating you very well.

Respondent: Exactly. I mean they're coming to you and saying I mean, Mr Malik, or how you're doing, make me a very important person and I'll spend any money on it to feel more welcome. So we want to bring restaurant service to -

Interviewer: That's a very interesting philosophy coming into business, many airlines just really focus on getting you on the plane and flying but then the service in between is not that great. It's just robotic. You might as well put a machine there and let it do the work for you. What you guys are bringing, I find that quite great. It's a new different philosophy which is actually fantastic. And so when it comes to targeting customers, you know, you made it clear that the customer is key to this whole process, to this business, what type of customers do you want to attract to your business?

Respondent: CBIT kind of customers. One business traveller, one leisure traveller, one chancer, or holiday tourist. Families you find a cheap ticket, you want to take a chance and just fly. Those travellers always will be there, they are flying. And we want to bring the [knowledge] to them and my exo team is focused on that. Focus on them more, people like entrepreneur, we want to bring knowledge to you, come out your thinking box. Take the chances in your life. Business doesn't come to you, you need to go to the business. WE want to pass it to you and we're a big market for me. For me, it took me, I used to fly as a business person, so what is really important to understand. I'm a politician. I'm a sports man. And an entrepreneur, business entrepreneur so I'm a victim of all the exercises. I understand the life closely and particularly. When it comes to entrepreneur I understand, my first flight I took 15 years ago. This flight should be, I need to go to get a business. Business won't come to you. So if I don't invest money in travelling and in my business, I won't see the business. So that's what I'm saying, that is very key. You need to start travelling and travelling not, I'm not against road transport, time is very key as well. Means that if you're flying you feel important. If you drive, doesn't matter what car you drive ion the road, won't give you that confidence So that's why I'm saying the entrepreneur market.

Interviewer: Going back to 1time, with regards to its demise. The media have been saying that 1time went down , because of the market size that was too small. They said SAA was pricing things very low, made it uncompetitive. Would you say, that now, this is what the media say but would you say that there was more to it than that. Did it mainly have to do deal with 1time itself, its business model, or is it really external factors.

Respondent: Let's say that – I'm only limited myself to 1time. I will know much wider, or industry – but about only 1time failure. 1time business model was great. They brought change in industry. What happened, your leader is very important. Very important. Like it or don't like it. You need a strong leadership in an industry. And a business. You need a strong leadership. What is very key factor to 1time failure, other airlines failure, you need to take right decision right time. You cannot stick with old aircrafts and compete with the new aircrafts. New machines. You cannot put me in a war without equipment. You need to give me equipment to war. Even top intelligent in the world I need equipment. Maybe most of that 1time was failure they couldn't take the right decision right time. But if you look at the history of 1time they were excellent team, performers and they brought market up. 24% market they were controlling and after the failure, a lot of people used to fly. They never flew again. They left flying they cannot afford to fly. So we're saying – for example, I'm saying that what we can promise you is service. My ex, sorry my coaching person – before we do model I say let's fly with other airlines, I just want to mention that, I never flew with that airline. She said you are just being harsher because, I said that's fine whatever you like. I said tell me, before you flew, I said check, what will be happening in this flight and she was checking, and I said you know what, you don't have business. The old school paper, we are young blood. Look at the only interest you get in the seat after the door closed, they don't give a damn about you. Let's for example, I was holding a phone in my hand. You know when it grew, coming and give you all security presentation and to tell you, switch off the phone and all this kind of stuff. One exercise, and she came do you mind to switch off your phone. I said not. What is it, do you mind to switch off the phone or switch off the phone? I said I don't want, we want to go to them, please sir do you mind, I'm so sorry, do you mind to switch off your phone and I'm sorry again. The consumer will think my mistake an airline apologizing. They really nice. It's my mistake but they're apologizing on my behalf to me. You will feel what, comfort someone took a game plan on something else. That's the change I want in my airline. When you're coming to my airline and you're coming to other, what is different? Different will be that you will feel special. So when we did all exercise every channel, I understand it's very hard for us to keep consumer happy. All is very well. For me it's always, as a consumer, nobody can keep me happy. So I always find a problem. But we can minimize that problems. We can do that. When we say that the failure is leadership and bigger on that I will give you last the failure, why people think why there was failure. I will give you the last paragraph summarizing what should be happening and what should be getting help for the industries. Any other questions.

Interviewer: Just a few more. This is a great interview so far I must say. Now I'm going towards infrastructure within South Africa. In developed countries you noticed that there are low-cost airports. In South Africa we don't have low-cost, we have airports that are not serviced that much. SAA will fly to Joburg, Cape Town and Durban and then if you want to fly to Pietermaritzburg, you're going to a secondary airport. With regards to low-cost airports, do you think that this will also enable low-cost airlines to thrive in this country.

Respondent: Let me put one thing to you. It's a very controversial statement but I'm going to give it to you now. Again this industry like I'm saying I'm a politician so we don't care, sportsmen as well. We're the fighters and we always speak open and from our heart not from our brain, and our, we are only 20 years democracy, we're still young in every direction. Still learning. A lot of departments we are very unmatured. If you come to aviation industry. Like I said there's older school thinking. Aviation is first of all dominated by one colour. Like blacks are like us, they want to go to industry. They're thinking oh come on, you're part of us, you're not part of us. I believe there's still apartheid exercises happening in the aviation industry. Like we're saying that, you're a black company can't be successful. Why can't you and then make sure, make sure you go – they do every effort to make you failure. Let's say that you go to the airports. We're a domestic airline. They give your office an international site. I say but people coming to buy a ticket for Air Somalia but saying we're domestic. If you're domestic your presence should be domestic site. Not the international site. When you talk to them, like you're talking to the Chinese. They don't understand. Bongani our CEO likes to give good speeches in the media are we looking for the new businesses, start up, come I give you help. Then you get there, they don't understand what they're talking about. I've I'm a domestic airline where I need to be the domestic. If one airline in four offices and a management, they can move anywhere they want. They holding, they don't want anybody else come to take their place. So are you helping them to overcome failure?

Interviewer: You're setting them up for failure.

Respondent: They're setting you up for failure. I told them it's apartheid thoughts. They need to be changed there as well. I mean, they think you know what, and I tell them we are one of you, not part of the outsiders. Not only use. I'm saying in any – it's apartheid industry and they need to be changed and that is key to your sexism field. If you have let's say a shopping centre. You're selling food. So there you should be. Food cooked. You fail. You fail. So you are saying god but I'm a food, so I need to be in a food court. You can give the best coordinates to Edgars but who will buy my food. And when a food court you give office to Woolworths management. They should be coming to me. They don't need office in food court. It can be anywhere. I raised a caution to them and they say don't teach us. We say we will not teach you, we will make sure you do it. There needs to be change in our departments. I mean, any, industry needs to be changed. It's not for us. The first flight we took, on the freedom day of Mr Mandela. We called freedom of skies. Because we know what we've been through, and done that. We think we've got 270 years to fight the barriers we have. That I'm saying that we choose that day, Mr Mandela's day – we were celebrating freedom of skies. No freedom in our skies. And it's very important so a consumer must understand that.

Interviewer: Okay. This is the last question. With regards to, you guys are independent Skywise, is it an independent brand or holding company.

Respondent: It's an independent brand.

Interviewer: Okay now if you compare it to the others specially the established ones like you mentioned, like Mango is an independent company obviously owned by SAA and then Comair, and Kulula on the other hand is just a brand owned by Comair. Do those type of structures, do they play any role in just enhancing sustainability or is it just other reasons.

Respondent: First of all the industry is very long. Common 40 – 50 year industry, SAfair, 40 – 50 year industry. Mango also running by government South Africa. Mango's successful formula is selling the ticket on SE Line. They have the court, if you can buy a ticket from America Japan anywhere. So that's become the succession part. For me running a corporate, any CEO in the world can run that structure. They have tools in every direction coming to him. They have funds. Unlimited funds to use and not to answer – right. And when we come to Comair, any competition. The difficulties were nationwide in 1time but again I understand Comair is a listed company. They made a limited option. They cannot go and wildfire in the market because share market goes up and down. They can be cautioned what is happening we bought shares in the market not because you go and fight in the market. You need to make money for us. You know. And Vermeule is, because they share the court, selling tickets. Safair the market there expertise of 50 years, 40 years about in technical side of servicing the plant. Not coming to the market in developing. So who the real players in the market, I look at myself and our team, we are then to low-cost airline – we are entrepreneurs. The business fighters. WE understand the pain of the consumer and we're not saying we want to compete anybody. We're saying let's work together and give better to work to the better service and better business around our industry environment. Let's not point fingers and be jealous. We're a family. Let's work to deliver something positive to our passengers, to the world. What is important as well, the world looks upon us. South Africa is very key for Africa. If you want to go to Africa, you need to go via South Africa. I'm saying that if anything happens here we'll speak about it. So we want to rely on us. We need to say welcome to competition, welcome to new players in the market. We're not saying that it should be too crowdy. We're saying that let's be reasonable. We cannot hold back so much.

It's time to change the industry. And you'll see the competition is more an more in the market, but gain we'd like to see competition as a service point of view. We don't mind paying R100 extra on a seat but to know that we're paying for something. again if we look at our website. We said we don't need to be an accountant to fly with us. See the number You get what you see. All in. It's not like you're paying R500 for a ticket and your credit card comes up R900, and you say but I paid R500 a ticket, but you never know what else you didn't know pay and you pay for it. It is an exercise as well. My team was panicking how we're going to do business. People saying this and that. I said let's go exercise. What is in the presentations, what is in the paper and what is on ground is totally different things. Never happened, never happen, you're studying you now that. You get this degree, that job, that job. Everybody got the degree. It's totally different. I didn't say education is not important. It's very important but education not to get a salary. It's to guide yourself up to understand the backup. I always said education cannot help you in the real world. Never help. Never help. Otherwise everybody can study degrees and become successful. Accountants can be controlling the whole world. It didn't work that way. The god is controlling to every direction and saying that, and more successful people in the world, is people. So I'm saying that I'm just giving you – education is very key, you mustn't think it will make you successful. That's your own ability and power. I'm being so many seminar and speeches, you come to universities, you know what, what business is a good business. What business have, what do you choose? My father used to tell me always, even if you're selling mielie meal on the road, try to be number one on that road. You don't need to be, if you're selling mielie meal on the corner, try to beat three people on that same road to be number one and very key to that jealousy is very important. But positive jealousy. If any industry, in your class if somebody gets a higher mark, be jealous, try to beat him. That gives you strength and if you are a sport, play a very good rule in your life, it keeps you on your toes and it gives you more time to digest, shocks, like I play cricket. If you understand, cricket, six balls in an over. So we say the lifeline, I play cricket and sport, professional cricket, how I used to be. I used to play Lancashire county B team. Every ball gives you one lifeline. If your first ball dies, you have five balls. Second ball third ball. So sometime a ball same light and I get a wicket and the captain comes to say what a ball, and the next ball is the same ball and he hits for a six, and he says, what a klap. You don't know how to bowl. This is the life. Sport gives you chance to digest and shocking and react and become faster. So it's like, I mean – you are in a game until you win it. So we say you know what, we have attitude, the right attitude. We have energy in the market and like I said we don't compete with anybody and if you talk to everybody in the industry like for example, you need to focus on the one formula. Why industry want to see the next person to befail you?

Why are they making sure to beget failure? Why can't we open arms and say you know what, let's help each other? Let's build industry. IT's not about how good I am. It's about how I can make industries good. And when industry is good, consumer is happy. That's why I'm saying my market to winning people's hearts. If I have the support of the consumers on the streets then nobody can touch us. It's like getting something important. When you go for walks. It says life is very mixed about it and why we're giving you time to in fact, it's key, when you go back to, you people back, your students, it's very key to tell them, every industry, we are there to decide how much have we got to break the barrier. If you're fourth in line you fall back and last – my co-chairperson is saying in radio, she's saying that I'm a businesswoman but they want to make me a politician. You're fighting for your rights. This thing doesn't work that way. You number and you talk about it, but in reality it's totally different. When you [unclear] number games. Environment different and everything different. You must go through the whole industry and come to us last. That was key for you to understand that when we talk about it we talk from our heart because we don't talk technically, don't say how many seats, who cared about that. Like when I told my team and go and – to media I say I'm a professional, must not go. Our leader must go to give it to you. So they understand how to connect people, if I put my technical team to you, they will talk about – we have a [unclear] fuel consumption is less and you don't care about it. That you can pick up. That you can pick up from Google but what I'm telling you you can't pick up from Google. Google will tell you exactly everything. So that is very key to correcting people. So again thank you for coming and we're always there for you and even in the future you want us to come, our team is available to helping the students, to give them talks, to fight for the rights and go for it. They must not think, I mean last year I think – last time – the biggest problem, they're going to buy tickets – to fly out the country. Somebody needs to withstand and said every student agrees, let him build the biggest thing, not to become something bigger, to buy a ticket and fly out from the country and do something there. So we've got to stay back. To keep them back. I mean or position, doing nothing to keep them back. So it's very important for you to [unclear] and say that no industry can be unnatural. If you have a stand, go for it. You have to have dreams. If you have no dreams, then you don't know what you're looking at. My father always told me dream big. Because when you know, it's very long, you'll have more power. More power, but need to be – if you make a mistake. Take it, first to learn, first to accept. And never give up. This is the message to the industry and everybody. We will stay long. [unclear] consumer support, but us as well. So thank you for coming.

Interviewer: Thank you for giving me this opportunity. It has been a great session. You provided a far different position and I think it will be very crucial to the study as well. What you mentioned that was crucial was actually the leadership and I think many have not touched on that. They always talk about factors, agreements, partnerships, and everything, but you spoke about the core and I really enjoyed it and I want to thank you for that.

INTERVIEW 3	
Interviewer	Dumolwakhe Denga
Respondent	Ian Mieker
Duration	45 Minutes
Nature of Transcription	Interview

Interviewer: Okay, 1 – 2 – 1- 2. Okay, so it’s working right now. Okay. Alright. My name is Dumo Denga. I’m from the University of Witwatersrand. And I’m here to conduct an interview on low-cost airlines and their sustainability in South Africa. Would you mind introducing yourself, sir?

Respondent: I’m Ian Mieke. I work for Comair. We have two brands. We have what is a full service airline which is a franchise. We operate British Airways under that brand here in South Africa and we have a low-cost brand Kulula.com.

Interviewer: Okay, alright. The first question, with regards to low-cost airlines, what type of value is intended to be created or delivered? Is it economic or social or any other value besides the ones I’ve mentioned?

Respondent: I think in terms of the low-cost airlines and maybe to try and understand your question a little bit better, but it’s a model in, so we’re not here to provide, we’re a private enterprise and we look for commercial opportunity and we obviously look as to how we can generate a sustainable business and obviously profits in terms of our shareholders. We look at the low-cost industry in terms of a business opportunity and in terms of a business opportunity and in terms of us being able to deliver a product into the market that serves a specific purpose and need to customers. Customers can purchase that product, engage with it and at the end of the day we can make profits out of it. So we’re not here to build any kind of esoteric purpose around, you know – the business is supposed to low-cost airline travel it’s a model, as to how you operate, where you’re working much more on a higher volume, increased frequency, larger capacity business, where you simply that business as much as possible from a complexity perspective and you’re able to in that environment lower your effective cost of delivery on a cost per seat basis and create more of a volume model. In the retailing space, you would obviously have retailers, so this is an analogy of retailers that, higher market profile; deliver a different type of service. There are cost attached there, a price attached to that kind of proposition. You get volume producers who are obviously looking at much higher volume model, smaller margins per passenger, but at the end of the day, they equate to similar things in terms of economic value.

Interviewer: And how would you define the model – I mean, in your idea, using the low-cost as like a basis, how would you define the business model, for any business or -

Respondent: Let's look at the kind of economics of what it is that we do within our flight environment, so at the end of the day we've got a capital value of an asset, and we need to ensure that we can extract as much revenue in terms of our ability to operate that specific asset. So we've got a whole lot of different cost factors in the business, the metal tube itself in terms of its cost, but we've got variable and semi variable costs, around, there's a direct correlation between fuel, and the passenger, there'd be a more indirect correlation between a crew member who would be crewing 2 – 3 flights and a pilot and then somebody sitting in the finance environment, who is a cost related to all those passengers. So we've' got various different costs that kind of associate in terms of what it is that we do. So we have a seat, and at the end of the day when it comes to the fixed cost and the semi variable cost component how can we lower the cost per seat, because at the end of the day, the efficiency that you create on a per seat basis allows you to either make a profit in terms of price that you're able to sell at or allows you to ensure that you can remain sustainable in environment where you've got intense competition or any of those types of things. So there's a lot of variables that end up in terms of how we manage that product on a cost per seat basis. If we were to take an aircraft, has an asset value, and we've got accounts people, if you look at your fixed costs in terms of your commitment, outside of your crew and semi variable cost, crew and those types of things. If we fly that flight once a day, you would take those seats divided by the fixed costs that you have, right, and ultimately you would have a much higher cost, as if you were to fly that flight ten times a year. Right, so efficiency in how we manage the cost per seat and sweat the asset and sweat the fixed cost, is determined on frequency, backwards and forwards in the availability. So the low-cost model is very much prevalent in short haul markets, where you've got shorter distances, as opposed to the long haul markets. Where you're not able to form a frequency perspective, you're flying 10 hours; you can only fly another 10 hours. Where short haul we can fly backwards, forwards, backwards forwards and in relative terms collect a higher fare, but from a perceived cost the more frequency we can fly, the more we will be able to lower the cost per seat. Because we're taking fixed costs and more an aircraft flies, the more you're dividing the number of seats you've got in the market by those fixed costs to lower that cost. So our business is very much about efficiency. So modern aircraft is a very important part of the sustainability within the low-cost environment, you can imagine that an aircraft with 100 seats and an aircraft with 180 seats, you're flying relatively the same amount of time, and you're using relatively a similar amount of fuel, so if you've got more seats, it's another way to lower your cost per seat. You're dividing a fixed cost of 180. So size of aircraft becomes very important in the model in terms of lowering the cost per seat. Frequency at which you're flying backwards and forwards becomes very important and then you've got a lot of other in terms of the engines of the aircraft in terms of fuel. The more efficient those engines are, at a more variable cost, respectively they start to be able to lower your costs, then you look at the distribution costs, the intermediaries or whether you sell more in terms of direct to the consumer. So there's a lot of other elements that come through to allowing you to sell and manage those costs and sell basically at a lower cost price to the consumer. Because at the end of the day you're mitigating a lot of costs in terms of number of seat, efficiency of the aircraft and sweating and backwards and forwards. That's where the low-cost model has come to the fore, is around really efficiency, getting a lot of people into the aircraft, simplifying the product, not having complexity around meal delivery and business classes and it's really creating, really creating more of a bus service in terms of the volume and frequency based business, getting people onto the aircraft and off the aircraft as quickly as possible. Typically within our Kulula environment we have half an hour turnaround so from landing to taking off again we have half an hour to get all the people off the plane, clean the planes, get the new customers on to the plane and be able to take off, so the less time on the ground, and the more time in the air, the more we're able to lower our cost per seat. Still make a margin at the end of the day deliver a cheaper product into the market. It's a volume based business.

Interviewer: How does governance assist with the business model, because I was doing previously before this and what I actually got was with 1time specifically they left the market after a relatively short period of time and I spoke to the group head and he was saying that 1time had a brilliant business model however governance and leadership were not present, do you think that leadership is actually quite crucial for keeping the airline sustainable?

Respondent: Absolutely! There's no question, leadership in any business in terms of that business being successful, and sustainable is vitally important so it's not unique to our industry, certainly dependent on the level of complexity that lives within the business, the airlines themselves have a lot of different moving parts, you've got your operations, safety considerations, maintenance considerations around those aircrafts, getting people on an off flight, then there's a lot of sales and distribution, how do you work with other airlines, in terms of boiling feed traffic in. There's a lot of expertise in a number of different areas, to get them to book direct, so there's a lot of skill sets involved in making an airline successful and sustainable. So yes, the skill requirements there, the leadership requirements are there but in terms of governance of the business passenger protection, we're a listed company and as a listed company, we follow very strict corporate governance within our specific business. If I can go back to 1time, I think 1time and the failure of 1time, a large contributor to that wasn't necessarily the leadership of the business, but it was related to the efficiency of the aircraft. Which only had, which had I think 120 seats, gas guzzlers, so when the oil price was sitting at levels of $40 - $50, you were able to operate them but the oil price went to $110 a barrel and a significant portion of your costs are in fuel and when you've only got 120 seats, you've got to fuel the plane, you've got to get to the destination, you can't not get to the destination, they were hitting a cost level in terms of operating aircraft that were not economically viable in a high oil price environment. So that was their biggest challenge was the efficiency. This business from a sustainability perspective is very much based on efficiency.

Interviewer: I think you already answered this question. In your opinion, what are the key resources or key process within an LCC and how they are, and I think how are they utilised to achieve the value proposition of an LCC. You mentioned that fleet is important.

Respondent: You're not really getting away from the, when you're running an airline the LCC will be at a premium. You've still got to sell the tickets and operate the aircraft and maintain the aircraft. You've still got to do all your management revenue accounting. Price your seats correctly in terms of what demand sits in the market. So there are no short cuts in how you operate an LCC and how you operate a legacy premium airline kind of service. You know, there's no fundamental differences. The same skillsets and the same knowledge, the same abilities apply to both. It's just the complexity that differs in both environments. We from an LCC Kulula point of view; we run two brands in one infrastructure. I think a lot of the success of Kulula is the fact that we're covered in lots of areas in terms of infrastructure, the sales and distribution infrastructure, the revenue management infrastructure, checking system, s operational efficiencies, training, catering, we use the common infrastructure to support both businesses. They still require it. They still need them in terms of their core ability to function, there's no, there's no there might be al little bit more of a simplification, because of the type of product delivery but when it comes to time it's the same skills, same safety requirements, the same experience. When it comes to a cabin crew member, might be serving a more complicated meal to what they would be doing necessarily in selling, the catering, the core abilities of these people remain the same. It's just the model in terms of how we operate, in terms of single product, standardized, efficient, quick turn arounds, and larger air craft, large seating capacities, as efficient as they can be, that's what creates the volume. I would think that if you got to a checkers / Shoprite a Pick 'n Pay and a Woolworths, you would find in the retailing space that the businesses are very similarly constructed in terms of skill sets and abilities. They just in terms of the application have a little bit of a different model in terms of how they achieve their results.

Interviewer: With regards to the type of consumer you want to attract, is there an ideal consumer that you're looking for when you're selling this type of product?

Respondent: It's, the consumer side of things has changed quite a bit. The reality with regards to air travel, and specifically short all air travel, so where we've got these distances, maximum hours, a lot of what that product is a commodity, now do I get from Point A to Point B. You're not thinking about necessarily how you get from Point A to Point B. How you get to Cape Town, as much as what I'm going to do. What's the hotel, that's, the or I'm going on a business trip and I've got meetings and an agenda. These are my business objectives, I need to attend there, getting there is what's efficient, what's safe. It's a 2 hr flight. I can endure maybe a little bit more from a discomfort perspective. I don't need business class and all of those kind of rules. So from a product attribute, or product offers corporate people other things, we offer people flexibility and affordability. If I buy a higher value BA ticket what we price into the system is the customer's ability to phone us an hour before the flight and say I'm not going to make this flight, I'm going to fly on the next flight. What we have is a seat that goes off empty and we've displaced some potential revenue on the following flight. So there are attributes in terms of what we offer within a more premium service product that allows for a lot more flexibility in the corporate market. But what we are seeing is that we are seeing a broader cross section of customers, flying, to save costs, a lot of indep4enent business people, who are looking to save in terms of overall travel budget. So the cross section of our customers, where when we launch the low fare product was much more a leisure product looking how can we attach into the leisure market and get more people to fly. Now, we've kind of got a much broader cross Secton of people that engage in a low-cost level. Both in the corporate and leisure market, in terms of where they fly. So the distribution requirements around where we sell and where w give different markets access to our seats has also changed quite radically. We launched and said come and book on our website. We not have a lot more sophisticated, and we're starting to work with other airlines in terms of developing relationships. When a customer from France arrives on Air France for example, we assist Air France in moving that passenger from Johannesburg down to Cape Town or Durban or to their destinations. So you've got that hub and spoke coming into the human the spoke going out. We've explored that and [unclear] selling into the travel agency community via their global distribution system. We're also selling to the erect customer in terms of our website so where we sell and how we sell has changed, because the cross session and the types of customer that are on our flights have also changed. We need that in terms of getting access to our seats and sales.

Interviewer: An ever changing scenario, you will adjust to -

Respondent: In Europe you're seeing that companies like Ryan air and Easy jet have become almost the default shortf-haul mode of transport and that corporate markets, so EasyJet's product has evolved tremendously, so much so that British Airways within the shorthaul markets within the European environment are looking at ways to change their product to meet more of the needs that sit within the low-cost environment. So when low-cost started, we've had two distinct models, premium service low-cost, we're getting this, this is starting to happen globally in terms of the short haul environment, in terms of almost like a middle tier airline developing where the models of both and the distribution opportunities within the legacy environment are merging into what is a much more efficient airline based on low-cost principles but offers more of the legacy airline benefits, flexibility – so there's a convergence that's taking place in the industry.

Interviewer: Now this is more of a question of infrastructure from national perspective, with regards to developed countries, you see a lot of secondary low-cost airports. IN South Africa I'm not sure, I've seen where you know, South Africa Express and Airlink fly to. I don't know if you can call those secondary airports, but I'm just wondering, if let's say secondary airports are built -

Respondent: We have one successful secondary airport in South Africa, Lanseria. So as a commercial secondarily airport, Lanseria.

Interviewer: Now if more of Lanseria had to exist, would that really increase the market size -

Respondent: The more you can lower your cost, the more market exists. So we'll move our affairs by 50 – 60 rand. People leave the market. So it's not like they will just pay more. They physically mean the market. So there's very much an elastic price sensitive volume relationship in terms of what it is they do. So yes, if we can lower costs at an airport level, because you know in terms of going to the primary airport, your tax at this point in time I think to leave Johannesburg International it's R160 and then to leave Durban is another R160 so in your trip down to Durban per person, just at a customer level there's R320, in just walking through those airports. So now you're a family of four, you take R320 and multiply that by four, right, and then you think ooh maybe it's better to drive. That's just airport taxes, that's got nothing to do with getting on the aircraft, having a pilot flying you and all of those types of things, so just the value in that, in terms of getting yourself as four people to and from Durban, just what you pay in airport taxes has got a big bearing on whether you're going to decide to take your family on an aircraft or drive. So yes, the costs in terms of the external costs that we need to, what are those things that add to the overall cost that makes it a lot more difficult for people to make the decision to fly. Secondary airports you can lower the costs and allow for cheaper facilities, more basic facilities but bring that at a level where we can produce the volumes. Ryanair is a business study, a business case, they've done exactly that, they've lowered the cost, created and used secondary airports and they built passenger volumes that are unbelievable. Just because they've been able to deliver on every aspect of their low-cost premise.

Interviewer: Okay. You mentioned your model and you said that you have, with regards to Kulula and British Airways and you said that basically they're independent, their brands and what you do is you have a common support structure because that allows you to build key skills for certain people. So now, that's the benefit, now I want to know are there any other benefits are there any benefits other than what you mentioned, in having a holding company operating two brands as opposed to having an independent airline basically. Are there any other benefits besides the ones that you mentioned? If you look at let's say Mango, they are obviously Mango subsidiaries of SAA and you guys on the other hand, independent brand, are there any -

Respondent: I think, South Africa is a fairly unique environment, and as an airline we've taken decisions in our history, based on different types of things, so the opportunity that exists with BA as a brand, yes whilst we've got efficiencies at a running in the business level and leveraging the resources into both of these brands, there's a specific reason as to why we decided to do this from a BA perspective and that is to be globally recogonised brand, so from an international tourism perspective, from British Airways being a globally recogonised brand, for us to have to go and build a brand in foreign markets, ourselves, as a uniquely branded South African airline, becomes a lot more expensive and challenging to do. So having the British Airways colours, when a travel agent is sitting in Russia wanting to move their passenger from Johannesburg to Cape Town and they see there's a BA flight and they can book into their global distribution system and we don't had a rep in Russia or a billboard or whatever it may be to build an awareness then that is global distribution in terms of what it is that we do and then there's product benefits and other benefits around obviously how we, so British airways as a global alliance with a whole lot of other airlines. These all work together and feed passengers into these networks that they have so these are marketing connections and somebody is travelling from Dallas to London to Joburg to Durban, they book one ticket. All the way through. The baggage goes all the way through. It's handled all the way. They are handled all the way through. They get their benefits as their loyalty programmes so there's a seamless connectivity that exists and for us there is a network and an international network so the BA opportunity for us is a distribution opportunity. We get a brand, we get systems, we get a whole lot of that, it's a licence to franchise. So the benefits for us are specific, and then adding in the Kulula brand is a low-cost b rand, a point to point business, more focused in South Africa. Yes it's grown up from what it started out as. The sophistication as to how and where we're able to sell and there is a bit of a convergence that takes place between the two but the reasons as to why we've got those brands are different, because they have a different distribution model and business model. Where can we get passengers and attract passengers and handle and manage those passengers. The benefit we have is that we have a common infrastructure. The green hat and the blue hat and that's what we do in terms of operating businesses and our pilots work over both aircraft and crew work over both aircraft and the airport checking staff work over both brands. So we do have this opportunity to extract operational synergy. The reason as to why we're in those businesses is they come with different things. We offer -

Interviewer: One brand for a specific purpose basically.

Respondent: A vehicle and a different business model.

Interviewer: That's actually quite interesting. I'm just looking here, the questions and what has happened, you've actually answered as we go along. So I've just seeing which you've actually left out. I think you've answered actually all of them in my opinion.

Respondent: The stuff in the value chain is all required. You can't skimp on any of these things. It's, the fundamental underlying requirements between a low-cost airline and a full service airline kind of remain -

Interviewer: And your prospects on low-cost airlines in South Africa. There are new ones that came in. Will it be healthy competition?

Respondent: Competition is always healthy, just whether or not in terms of the models they deployed sustainable in terms of what it is that they are setting out to achieve. So you know, what we have in South Africa is very much a market that isn't growing. So the market for what we do, isn't growing. So if we were seeing economic growth rates of 3,4,5,6 per cent we would naturally see a lot more people entering the market and a lot more demand. What we have in terms of a much more stagnant economy and challenges that exist with electricity supply and all of those types of things, is we don't see the market growing. More seats are being added to the capacity that exists so your ability to fill your aircraft gets spread over more airlines, more, so your opportunities from revenue perspective to cover your costs become a bit more squeezed. So at the end of the day, who's the most efficient? Because the most efficient person that can operate at the lowest cost is going to sustain themselves in terms of – you know, what it is that we achieve. So coming back to SAFair for example, we've got an aircraft that consumes the same amount of fuel to the aircraft we have, but our aircraft have 190 seats in capacity, their aircraft has 150 seat capacity. Your opportunities to lower our cost per seat at the end of the day become a little bit more challenged, when you get to the mass 9, I don't think I've got a picture of the Mass 9 here, but when you get to the 737 max 9, you've got a 14% operating efficiency over the current aircraft, so you've got a much lower operating cost capacity but you're adding another 10 seats to that, so you're going to over 200 seats in that environment. So it's very much based on efficiencies of ways, where your costs lie and that lies in your aircraft and your fuel. So if the fuel price moves and changes, then there's going to be, it's going to become a lot more difficult for these new entrants to survive. Similar to what happened to 1time, their problems really started to come in - $210 a barrel oil. And we've got a second challenge within South Africa is our aircraft are a dollar based asset, fuel is linked to, the cost of fuel as we know every month it changes depending on what the dollar, also the translation of the dollar based oil price into rands, your maintenance is in dollars, you buy parts and doing all of those types of things in the dollar based environment, so 48% of our costs are dollar based. So if we see the material devaluation in the rand, 48% is directly felt at that evaluation. So when the currency moves, the fuel price moves the cost of equipment moves, the cost of maintenance moves, there's a huge impact in terms of the effect of the dollar. So we have a double whammy. We have a kind of core fuel price issue, but we also have a rand dollar issue. IN terms of having to cope with the currency that -

Interviewer: It's very volatile. So I mean I'm just wondering, like let's say from government's perspective, or not even, let's just say from economic perspectives. Since most of your costs are dollar based, if we could get skills into this country that can actually, let's say for example like maintenance if we had more airline maintenance that manufacture parts here for aircraft, I'm pretty sure it will be rand based if as long as the skills and everything are here.

Respondent: When you start looking at aircraft components, the to compete successfully, we might need a, one component every – so whilst the aircraft is made up of many thousand different moving parts, we might only need one part every 10,000 cycles. So whether it's suitable for a local company to be use the one part for 26 aircraft that we have every 10,000 cycles, it becomes, I don't think that there would be a business in, there's not enough volume to justify people investing in, so I don't think we'll ever get away from our reliance on, you can import people skill and develop people skill here, there's always going to be this, these things are produced in France, and Seattle and America, your Boeing Airbus. You've got some guys coming out of China now, but there's component delivery guys that delver to the, and their volume is related on the global customer base, not the customer base that sits in very small continent. So I don't think we'll ever get away from that in terms of the economics required to make those component business sustainable. I know you do talk about ancillaries, so yes what we have done successfully in the low-cost environment is created much more of a menu system for customers, so to keep the base cost of the seat as affordable as possible, we've removed certain attributes, where in the full service environment it's a bonded project, and all of that kind of stuff into one price. And the low-cost we've created much more of a menu when you can say I want, I'll take a pre seat and an extra bag and some flexibility on my ticket type and we've created this ancillary revenue opportunity. The other thing that we have is we leverage, the fact that we've got a million passengers travelling on us every year, we have a market so what we can do is sell other products to that market to get revenue. Once you have a customer database, how can you improve on the perspective to make your airline more sustainable. So we sell hotels, car rental, packages, we sell value around that core airline product to create much less of a commodity and more of a product at the end of the day. Our ability to sell in terms of breaking the services up and allowing people the flexibility of their own form of customization in terms of their specific needs is also, has been a fairly important criteria in the low-cost industry as a whole. So you'll see that that is deployed in a lot of other low-cost airlines. .

Interviewer: Okay. I think that's – the list below provides studies that most LCC used to gain a cost revenue advantage are there any more strategies to add to the list. So basically the first one is provision of range of services, such as unbundling of the flight products, serving secondary airports, etc. You mentioned that one. And then enhancing efficiencies through aircraft utilisation. That common fleets, lower salaries, outsourcing, ancillary revenues, effective negotiations, single class service. Internet distribution, special costs. So that's pretty much sums it up in a nutshell.

Respondent: Your common fleets, you're not dealing with different aircraft and having to train pilots across various, there's a cost of supporting different aircraft types, you know the lower salaries, not necessarily in our environment, you need the skills in the organisation, so your ability to lower your salaries yes maybe you'd have in certain environments but because we have a lack of skills overall in South Africa in terms of airline industry specific skills, you're driven by your ability to employ, you must be competitive in the market. Outsourcing is an opportunity. There is a cost to outsourcing. Generally you're finding that somebody else is making a profit on the services that they're delivering to you. The costs of the inputs are going to be very similar to you having those costs yourself and there's a profit margin built into that. Whether outsourcing is as efficient, it becomes scaleable in terms of if you are seasonal, Ryanair has a lot of seasonality in their business. Outsourcing allows you to say we'll take services for this month and not for next month. But it's not necessarily – ancillary revenues we've spoken about in any environment be legacy or non-legacy, or low-cost, your ability to negotiate with suppliers and get the best possible rates helps. Single class of service makes things simple and easy. Internet bookings so your ecommerce strategies are quite well defined. AT the end of the day this is your ability to convert that sale. And your administration costs, you know, are there, depending on what systems you deploy into the market. So ja and I would think one of the points that might speak to common fleets or to enhanced efficiency is obviously the aircraft type itself. You need to be in an aircraft type that offers you greatest amount of seating capacity for the most efficient [fuel burner]

Interviewer: Alright, that's all, I just want to thank you for taking time out to actually do this. I know you're a busy person – so – [general discussion] thank you for this, I think at the end of this, what I'm also going to do, I'm going to run a process of data verification. I'm just going to make a mini report for you to read through, just to verify that what is here is actually true. It's just a little, once the analysis is done, I'll still send you another email with regard to data verification, then once that is done that will be good. Then also if you want the dissertation yourself, I can also provide that as well. Good, thank you very much.

INTERVIEW 4	
Interviewer	Dumolwakhe Denga
Respondent	Jerome Simelane
Duration	45 Minutes
Nature of Transcription	Interview

55

1 Economic - It is primary → Could be social implications

LCM started in US.
Legacy airlines dominated in South Africa.

Industries doing well because of the LCC. ~~Passenger~~ Low Cost drove the industry.

Growth goes to plateau and new players dominate

Option of having a L.C.C

~~SA is still relatively small~~
Only exist in an environment where its high demand.

JNB-CPT one of the highest.

In it for economic value at the lowest cost.
2007-2008 highest number

2 Cost difference, ~~stet~~ take out things which don't have value. which will stimulate demand.

3 leader who is different younger, growth in e-commerce

www.flysaa.com

www.flysaa.com

2003

ce. is crucial. It has
the.

(1) Low Cost keeping.
Suppliers - Negotiations
Utilisation of Assets.
~~Sp~~ Markets are not
sophisticated. Must be
high

Hub and Spoke - SAA
Point - Point - Always fly

(10) Good ~~model~~ model
Not market related
~~can~~ Kulula is a division
of Comair.
1Time is a true LCC

www.flysaa.com

kulula not so efficient
duplication of roles
Old Aircraft, Cost of
operations was too
high. Fuel guzzler
Have the lastest aircraft
available. Better economics
Fly to the right markets
you can make money.
1Time did not buy
aircraft. They got leased
and did not buy new
aircraft.

Increased competition
played a part. Mango
good idea. One things
default. 1Time BLL Mango

www.flysaa.com

2003

ce. is crucial. It has to be.

(7) Low Cost keeping.
Suppliers - Negotiations
Utilisation of Assets.
Markets are not
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Hub and Spoke - SAA
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and did not buy new
aircraft.

Increased competition
played a part. Mango
good idea. One thing
fault. 1Time bLL Mango

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APPENDIX D: Letter Confirming Editing

8 Nahoon Valley Place

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04 December 2015

TO WHOM IT MAY CONCERN

I hereby confirm that I have proofread and edited the following master's thesis using the Windows "Tracking" system to reflect my comments and suggested corrections for the student to action:

The sustainability of low-cost airlines within South Africa by Dumolwakhe Denga, a dissertation presented to the School of Economic and Business Sciences (SEBS), University of Witwatersrand, in fulfilment of the requirements for the degree of Master of Commerce (MCom).

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Professional Editor

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Disclaimer: Although I have made comments and suggested corrections, the responsibility for the quality of the final document lies with the author in the first instance and not with myself as the editor.

BK & AJ Carlson Professional Editing Services

APPENDIX E: Approval of Title Letter

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28 October 2015
Person No: 384780
PAG

Mr D Denga
Po Box 8049
Edenglen
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Dear Mr Denga

Master of Commerce: Approval of Title

We have pleasure in advising that your proposal entitled *Sustainability of low cost airlines within South Africa* has been approved. Please note that any amendments to this title have to be endorsed by the Faculty's higher degrees committee and formally approved.

Yours sincerely

Mrs Marike Bosman
Faculty Registrar
Faculty of Commerce, Law & Management